

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

NOTE 1 – REPORTING ENTITY

Organization

The City of Long Beach operates under a City Charter originally adopted in 1921 and last amended in 2002. The City Charter establishes the current Mayor-Council-City Manager form of government, sets forth the powers and duties of the Mayor and City Council and defines the roles, duties, and form of organization of the City's various boards, commissions, and other offices. The City is divided into nine councilmanic districts, with Council persons elected to serve within their respective districts. The citizens, as a whole, elect a Mayor, City Auditor, City Attorney and City Prosecutor. The City Council appoints a City Manager who serves at the discretion of the Council.

Financial Reporting Entity

The City provides a full range of municipal services including police and fire, health and environmental, library, recreation and related social services, public works, parks, sanitation, planning and community development, public improvements, gas, water, airport and towing services. The City operates its international harbor facility, the Tidelands area, consisting of the convention center, Queen Mary, Rainbow Harbor, marinas, beaches and oil extraction administrative operations under a trust agreement with the State of California. It is the City's policy to establish activity fees and charges designed to recover the cost of providing services, including capital costs such as depreciation and debt service. Accordingly, the financial operations of these operations are accounted for as enterprise funds.

The accompanying basic financial statements present the financial activity of the City of Long Beach and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although separate legal entities, are, in substance, part of the government's operations. The City's discretely presented component unit represents a legally separate organization for which the nature and significance of their relationship to the primary government are such that exclusion would cause the City's reporting entity to be misleading or incomplete. Brief descriptions of these related blended and discretely presented component financial reporting units/entities and the method of incorporating their financial information in the accompanying basic financial statements are as follows:

Blended Component Entities

Housing Authority of the City of Long Beach (the Authority) is a public agency created by action of the City Council in 1969 to administer housing assistance programs for qualified residents. The Authority is governed by an eleven-member Board of Commissioners, comprised of the nine City Council members and two representatives elected by housing assistance benefit recipients. The Authority's administrative functions are directed and performed by City employees. The financial activity of the Authority is included in the City's accompanying basic financial statements as the Housing Assistance Special Revenue Fund.

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Long Beach Housing Development Company (the Company) is a non-profit corporation formed by action of the City Council in 1987 to plan, direct, perform and assist the City in meeting its statutorily mandated responsibility to provide adequate housing to low and moderate-income residents, senior citizens and disabled persons. Under California law, the City's Redevelopment Agency is required to set aside 20% of its incremental property tax revenues to meet these needs. It is the Company's assigned responsibility to assist the City and the Redevelopment Agency in assessing such needs. The City Council appoints the Company's Board of Directors, approves the Company's bylaws and changes thereto, approves the Company's budget and has ultimate authority over the Company's activities. In addition, the City provides all staff, facilities and funding for the Company's operations. The financial activities are blended with those of the City in the accompanying basic financial statements and are accounted for in the Housing Development Special Revenue Fund. By electing to form a non-profit corporation to carry out functions that would ordinarily revert to the City, it is the City Council's intention that a greater potential for public/private partnerships be created.

Redevelopment Agency of the City of Long Beach (the Agency) was established by action of the City Council in 1961 under provisions of State law. The Agency is administered by a five-member governing board whose members are appointed by, and serve at the will of, the City Council. The City Council approves the Agency's annual budget and changes thereto. Additionally, the City Council approves all decisions that impact the Agency's fiscal operations, such as determination of redevelopment project areas, bonding decisions and sales of property. Further, the City provides all staff, treasury management and investment analysis, facilities and administrative services to conduct the Agency's day to day operations. Accordingly, the financial activities of the Agency are blended with those of the City in the accompanying basic financial statements and are reported as the Redevelopment Capital Projects Fund.

To accomplish its stated purpose, the Agency assists the City by acquiring land and makes such sites suitable for resale to contracted commercial developers. Agency parcels are often sold below the cost of acquisition, with the expectation that the proposed development will meet the objectives of increasing local revenues, expanding the City's economic base and employment opportunities, and removing blighted areas. Such acquisitions are recorded as investments in land at cost, and are adjusted for estimated declines in market value, upon negotiation of a development disposition agreement.

Southeast Resource Recovery Facility (SERRF) Authority is a joint powers authority between the City of Long Beach and the Los Angeles County Sanitation District Number 2. The Authority was created to finance the construction of a waste-to-energy facility through the issuance of lease revenue bonds. Payments under the lease are intended to service bonded debt issued to finance construction of the project. For financial reporting purposes, the capital lease between the SERRF Authority and the City has been eliminated, and the financial activities of the SERRF Authority are included in the Solid Waste Management Enterprise Fund. (See Note 18).

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Other Related Entities:

The financial operations of several non-profit financing corporations and authorities organized for the purpose of financing various capital improvements or debt refinancings within the City are also included as blended component units in the accompanying basic financial statements. The activities of the organizations listed below are generally restricted to financing City related capital improvements. In this regard, the City Council either serves as the governing board or appoints the voting majority of the governing board, and otherwise exercises significant oversight and direct operational and financial control over these entities. Therefore, such entities meet established criteria for inclusion in the accompanying basic financial statements.

For the most part, these non-profit corporations enter into capitalizable leases with the City (See Note 11). However, for financial reporting purposes, such lease transactions are eliminated, and the related financing obligations and related capital assets are carried at cost in the accompanying basic financial statements.

The non-profit financing corporations established by the City are:

<u>Entity</u>	<u>Affected Fund Type</u>	<u>Affected Funds</u>
Long Beach Financing Authority	Governmental	Redevelopment Capital Projects Fund
Long Beach Bond Financing Authority	Governmental and Business-Type	Civic Center and Fleet Services Internal Service Funds; Tidelands Enterprise Fund
Long Beach Capital Improvement Corporation	Business-Type	Airport Enterprise Fund
Parking Authority of the City of Long Beach	Business-Type	Tidelands Enterprise Fund

Separately issued financial statements are required for the Redevelopment Agency, the Housing Development Company and several separate financing authorities because of financing or legal requirements. These separately issued financial statements may be obtained at City Hall. There is no requirement to separately issue financial statements for the remaining component financial reporting units; consequently, none are issued.

Discretely Presented Component Unit

Long Beach Public Transportation Company (LBT) is a nonprofit corporation, formed in 1963 to purchase the local public transit system from a private carrier.

LBT is governed by a seven-member Board of Directors (Board) which provides broad policy and financial decisions, setting direction for management. The Mayor, with the approval of the Long Beach City Council, appoints residents of the community to the Board

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to serve overlapping four-year terms. In addition, two designees of the City Manager's Office serve as ex officio Board members but do not have voting authority. The LBT's mission is "to provide public transit services that enhance and improve the quality of life for the people in our community."

The LBT governing body is not substantively the same as that of the City and its service area overlaps other communities. The LBT is reported as a separate column to emphasize that it is legally separate from the City. The City is the sole shareholder. Separate financial statements can be obtained from the Executive Director of Financial Services, Long Beach Transit, P.O. Box 731, Long Beach, CA 90801.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1.) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2.) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the accompanying government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the accompanying fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, and except for reimbursement basis government revenues, which are recognized when earned, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.), net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the City.

Major Governmental Funds

The General Fund is used to account for financial resources applicable to the general governmental operations of the City of Long Beach which are not required to be accounted for in another fund.

The Housing Development Fund is used to account for the portion of Redevelopment tax increment monies which is required under California Redevelopment Law, Section 33334, to be set aside for the development of low and moderate income housing. The Housing Development Company is also accounted for in the Housing Development Special Revenue Fund.

The Community Development Grants Fund is used to account for Federal grants providing job training and employment opportunities for economically disadvantaged, unemployed, and under employed persons. This fund is also used to account for Federal grants received from the U.S. Department of Housing and Urban Development (HUD). HUD grants are used for the development of a viable urban community by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.

The General Capital Projects Fund was established to account for the acquisition, construction, and improvement of capital facilities financed by grants and operating transfers from the General Fund and certain special revenue funds.

The Redevelopment Capital Projects Fund was established to account for the acquisition, relocation, demolition and sale of properties for those portions of the City of Long Beach which have been earmarked for redevelopment. Redevelopment projects are financed with property tax increment revenues, operating transfers from the Community Development Grants Special Revenue Fund, and bond proceeds. This fund is also used to account for the accumulation of resources for, and the

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payment of principal and interest on the Redevelopment Agency's bonded debt and other long-term obligations.

Major Enterprise Funds

The Gas Fund is used to account for the activities associated with the transmission and distribution of natural gas to the City's users.

The Water Fund is used to account for the activities associated with the pumping, purchasing, treatment, transmission and distribution of potable water by the City to its users.

The Solid Waste Management Fund is used to account for the City's refuse collection and resource recovery operations. The Southeast Resource Recovery Facility (SERRF) Joint Powers Authority is consolidated with the City's Solid Waste Management Fund for financial statement presentation.

The Tidelands Fund is used to account for operations, maintenance and development of the Convention Center, the Queen Mary, as well as the City's marinas and beaches. For financial statement presentation, the Parking Authority of the City of Long Beach is consolidated with the Tidelands Fund.

The Tideland Oil Revenue Fund is used to account for the proceeds from oil operations within the City's Tidelands Area.

The Harbor Fund is used to account for the operations and development of the Port of Long Beach.

Additionally, the City reports the following fund types:

Internal Service Funds account for a variety of services provided to other departments or agencies of the City on a cost reimbursement basis. These services include information technology, fleet services, civic center and related maintenance and financing, liability insurance, workers' compensation insurance, unemployment insurance and employee benefits.

Private Purpose Trust Funds account for assets and activities restricted to a specific purpose in accordance with a trust agreement. These include the Miller Library and Mayor's Fund for the Homeless, from which both principal and interest may be spent for the purposes of the trusts.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governmental units.

The City applies all Governmental Accounting Standards Board (GASB) Statements and Interpretations. As permitted by generally accepted accounting principles, the City has also elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 that may apply to the accounting and

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reporting practices of the City's proprietary fund operations, except those that may conflict with GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's gas, water and sewer functions and various other City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1.) charges to customers or applicants for goods, services, or privileges provided, 2.) operating grants and contributions, and 3.) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Business-type activities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a business-type activity's principal ongoing operations. The principal operating revenues of the City's business-type activities are charges for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pooled Cash and Cash Equivalents

In order to maximize investment return, the City pools its available cash for investment purposes. The cash management pool is used essentially as a demand deposit account by the various funds; accordingly the City has defined Cash and Cash Equivalents as demand deposits plus all investments maintained in the cash management pool, regardless of maturity period. In addition, several individual funds maintain specific investments over and above any pooled cash balances they may maintain.

Interest income arising from pooled cash and investments is apportioned to the participating funds based on the relationship of their respective daily cash balances to the total of pooled cash and investments. Investments are stated at fair value at September 30, 2002. (See Note 4).

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (for example, the current portion of interfund loans) or "advances to/from other funds" (for example, the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Trade and property tax receivables are shown net of any provisions for uncollectible accounts.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the constructed asset.

Capital assets of the primary government are depreciated on a straight-line basis, over the estimated useful lives of the assets, as follows:

Land Improvements	15-35 years
Buildings and Utility Plant	20-50 years
Structures and Facilities	10-35 years
Infrastructure	20-50 years
Automobiles	2-6 years
Automotive Equipment	10-20 years
Machinery and Equipment	5-20 years
Office Furniture, Fixtures and Equipment	3-20 years

Land parcels held for resale are recorded at cost, and are adjusted for estimated declines in market value, upon negotiation of a development disposition agreement.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the

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shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs and deferred amounts on refunding are generally included in interest expense unless otherwise noted.

In the accompanying fund financial statements, the City's governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of debt issued has been reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Adoption of New Accounting Standards

The City adopted the following pronouncements of the Governmental Accounting Standards Board (GASB) effective October, 2001. (see Governmental Funds and Business-Type Activities pages 59-61)

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*: This statement significantly changes the manner in which the City records transactions and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the City's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities). The City now reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of "using up" capital assets – in the statement of activities. The net assets of the City are broken down into three categories – 1.) invested in capital assets, net of related debt; 2.) restricted; and 3.) unrestricted.

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Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

GASB Statement No. 34 discontinued the presentation of expendable and nonexpendable trust funds. Net assets and activities formerly accounted for in the nonexpendable trust accounts have been reported as enterprise funds since the activities of these funds are reported on the full accrual basis. The expendable trust funds have been transferred to private purpose trust funds.

Statement No. 36, *Recipient Reporting for Certain Nonexchange Revenues – and Amendment of GASB Statement No. 33*; This statement amends GASB Statement No. 33 with respect to the manner in which shared nonexchange revenues are accounted for by recipient governments. GASB Statement No. 33 was adopted by the City effective October 2000. Implementation of GASB Statement No. 36 did not require the City to restate any amounts.

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; This statement amends GASB Statement No. 34 to either 1.) clarify certain provisions or 2.) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the City has considered the effects of this statement when adopting the provisions of GASB Statement No. 34.

Statement No. 38, *Certain Financial Statement Note Disclosures*; This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, the City has revised certain footnote disclosures presented herein to conform to the provisions of GASB Statement No. 38.

Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation impacts the governmental fund level financial statements required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements. The City does not recognize the current portion of certain long-term liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of September 30, 2002.

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Net Assets and Fund Equity

In the government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent fund trusts and endowments is reported as permanently restricted. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative City Council actions that are subject to change.

Property Tax Calendar

Under the State Constitution, the property tax rate is limited to 1% of market value, but may be adjusted for specific voter-approved indebtedness. Property taxes are levied by the Los Angeles County (County) Tax Assessor and shared among all other local taxing authorities within the City. Accordingly, the County collects property taxes and distributes such taxes on the basis of the taxing authorities' tax rate percentages, allowing for such adjustments as may be authorized for voter-approved debt. Property taxes are levied on March 1, and are due in two equal installments on the following November 1 and February 1.

The lien date is March 1. The City recognizes property tax revenues on the modified accrual basis of accounting based upon distributions from the County, which occur shortly after the delinquency dates. The City's fiscal year-end of September 30 differs from the June 30 year-end of the County. At year-end the City records revenue and property taxes receivable for the amounts earned from July 1 through September 30, in accordance with generally accepted accounting principles.

Revenue Recognition for Utility Funds

Utility revenues are recorded as billed to customers on a cyclical basis. All customers are billed monthly. Unbilled amounts at year-end are not considered material and are not recognized as revenue.

Employee Benefits and Compensated Absences

Benefits for all City employees are paid from the City's Employee Benefits Internal Service Fund, except for the residual balance of a City-administered Police and Fire Annuity Benefit Program that was terminated in 1945. The Employee Benefits Internal Service Fund is reimbursed through payroll charges to other funds based on estimates of benefits earned. The City's policy is to pay all accumulated vacation and holiday pay when an employee retires or terminates.

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Accumulated sick leave becomes vested only when an employee meets the City's minimum requirements for retirement. At the time of retirement, employees have the option of using the cash value equivalent of accumulated sick leave to continue in the City's health insurance plan or to purchase additional pension benefits from the State of California Public Employees' Retirement System (CalPERS). Accumulated sick leave is forfeited upon termination for reasons other than retirement. The City also contributes up to 32 hours of accumulated sick leave each year to deferred compensation plans for active safety employees who have accumulated in excess of 40 days of sick leave as of January 1 of each calendar year. These deferred compensation contributions are currently funded and remitted to the City's deferred compensation third-party administrators.

The City makes annual contributions in varying amounts to deferred compensation plans for certain employee groups who serve in sensitive, confidential capacities (for example, police and fire receive \$600 per year. All other City employees receive no such benefit. Contributions are made as of January 1 each year.

The City has established an Integral Part Trust (Post Employment Medical Benefits) for police officers. This third-party administered trust provides reimbursements for post retirement medical expenses. For eligible employees, thirty-two hours of accumulated sick leave and excess, unused vacation is converted to dollars using the employees current wage rate and deposited, pre-tax into a trust account maintained in the employees name.

Vacation and holiday benefits are recognized when earned. Sick leave benefits are recognized on a pro-rata basis using an actuarially determined method. (See Note 13).

Budgetary Principles

The City Council adopted the fiscal year 2002 budget prior to September 30, 2001 for all funds except for agency funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various governmental funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments or within a given fund, without City Council approval, provided that the total appropriations at the fund level and at the department level do not change. Transfers of appropriation between funds or departments require City Council approval. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

Budget information is presented in the accompanying basic financial statements for the General, Special Revenue, and Capital Projects funds on a non-GAAP budgetary basis, since appropriations represent budgeted amounts to be expended or encumbered during the period.

Budgeted revenue and expenditure amounts represent the originally budgeted amounts as well as budgeted amounts as modified by adjustments authorized during the year. Total expenditures of each fund may not legally exceed fund appropriations, and total expenditures for each department may not legally exceed departmental appropriations.

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Accounting for Encumbrances

Encumbrances outstanding at year end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City records an encumbrance as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received as required by generally accepted accounting principles. (Adjustments necessary to convert actual expenditures from the modified accrual basis to the budgetary basis are reflected in Note 16).

Estimates

The preparation of the City's basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Governmental Funds

The beginning fund balances in the accompanying basic financial statements have been restated for the General Fund, Housing Development and Community Development Grants, and the General and Redevelopment Capital Projects Funds. The adjustments result from reporting long-term advances from other funds previously recorded in the General Long-Term Obligations Account Group in the Housing Development Fund and Redevelopment Capital Projects Fund as a result of the implementation of GASB Statement No. 34. The fund balance restatement to increase reserved for other noncurrent receivables represents fund balance not available for current obligations since the advance due from other funds has no specified repayment date. Also as a result of GASB Statement No. 34 implementation, the General Capital Projects Fund and the Special Assessment District Capital Projects Fund have been consolidated. (See "Adoption of New Accounting Standards", page 55)

The table below summarizes these restatements, (in thousands):

	General Fund	Housing Development	Community Development Grants	General Capital Projects	Redevelopment Capital Projects	Special Assessment District Capital Projects
Fund Balance at October 1, 2001, as originally stated	\$ 76,960	\$ 26,022	\$ 2,031	\$ 35,891	\$ 82,402	\$ 9,653
Consolidation of funds	-	-	-	9,653	-	(9,653)
Cumulative Adjustment to Record Advances to Other Funds:						
Reserved for Other Noncurrent Receivables	93,310	3,824	4,171	1,877	-	-
Unreserved, Undesignated	-	(4,171)	-	-	(158,678)	-
Fund Balance at October 1, 2001, as restated	<u>\$ 170,270</u>	<u>\$ 25,675</u>	<u>\$ 6,202</u>	<u>\$ 47,421</u>	<u>\$ (76,276)</u>	<u>\$ -</u>

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Business-Type Activities:

Under GASB Statement No. 33, internal capital contributions are no longer reported as direct additions to equity, but instead are reflected on the operating statements. Tidelands, Marina, Queen Mary, Rainbow Harbor Area and Harbor proprietary funds, formerly reported as nonexpendable trust funds, reported fund balance net of cumulative contributions in the fiscal year ending September 30, 2001.

The Tidelands, Marina, Queen Mary and Rainbow Harbor Area were consolidated to conform to the City's policy of budgeting as one unit. (See "Adoption of New Accounting Standards", page 55)

The table below summarizes these restatements of beginning net assets for major business-type funds as of October 1, 2001 (in thousands).

	<u>Tidelands</u>	<u>Marina</u>	<u>Queen Mary</u>	<u>Rainbow Harbor Area</u>	<u>Harbor</u>
Total Fund Balance at October 1, 2001, as originally stated	\$ 60,409	\$ 13,651	\$ 12,148	\$ 2,069	\$ 1,367,306
Contributions	108,273	281	-	20,840	64,542
Consolidation of funds	<u>48,989</u>	<u>(13,932)</u>	<u>(12,148)</u>	<u>(22,909)</u>	<u>-</u>
Net Assets at October 1, 2001, as restated	<u>\$ 217,671</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,431,848</u>

Total retained earnings was recorded net of cumulative contributions in the Gas, Water, Sewer, Airport and Solid Waste Management funds as of September 30, 2001.

The table below summarizes these restatements of beginning net assets as of October 1, 2001 (in thousands).

	<u>Major Funds</u>			<u>Nonmajor Funds</u>	
	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Sewer</u>	<u>Airport</u>
Total Retained Earnings at October 1, 2001, as originally stated	\$ 62,346	\$ 162,728	\$ 1,808	\$ 43,245	\$ 5,239
Contributions	<u>9,759</u>	<u>19,892</u>	<u>6,000</u>	<u>1,337</u>	<u>17,936</u>
Net Assets at October 1, 2001, as restated	<u>\$ 72,105</u>	<u>\$ 182,620</u>	<u>\$ 7,808</u>	<u>\$ 44,582</u>	<u>\$ 23,175</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Government-Wide

The impact of GASB 34 on the City's accounting and financial reporting practices was to report the residual balances of certain internal activities within the net assets of governmental activities, report all long-term assets, including capital assets, and liabilities in the statement of net assets, and report all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

These adjustments are summarized in the table below (in thousands):

	Governmental Activities
Net Assets:	
Fund Balance at September 30, 2001, as previously reported	
Governmental Fund Types:	
General	\$ 76,960
Special Revenue	63,985
Capital Projects	127,946
Total Fund Balance as previously reported	<u>268,891</u>
Restatement of Fund Balance (Deficit)	
General	93,310
Housing Development	(347)
Community Development Grants	4,171
General Capital Projects	1,877
Redevelopment Capital Projects	(158,678)
Total Fund Balance Restatements	<u>(59,667)</u>
Fund Balance at September 30, 2001, as Restated	<u>209,224</u>
GASB Statement No. 34 Adjustments:	
Additions of:	
Beginning residual balances from internal activities accounted for as	
Internal Service Funds as restated for contributions	<u>45,249</u>
Capital Assets:	
General Fixed Asset Account Group, as previously reported	309,524
Add Streets, Sidewalks, Curbs and Gutters	241,421
Add Infrastructure Construction in Progress	26,353
Less Accumulated Depreciation	184,063
Total Net Capital Assets as of September 30, 2001	<u>393,235</u>
Recognition of Revenue that does not provide current financial	
resources that are Deferred Revenue in the Fund Statements	<u>1,321</u>
Reduction of deferred credits offsetting long-term receivable	
in fund financial statements	<u>52,104</u>
Less:	
Long Term Liabilities:	
General Long-Term Obligations Account Group as previously reported	409,422
Less Long-Term Advances to Other Funds Reported in Fund Financials	(162,849)
Total Long-Term Liabilities as of September 30, 2001	<u>246,573</u>
Accrued Interest	<u>3,917</u>
Total Additions	<u>241,419</u>
Net Assets as of September 30, 2001	<u>\$ 450,643</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of such \$342,936,000 difference are as follows (in thousands):

Bonds Payable (Note 9)	\$ 231,100
Plus: Issuance premium (to be amortized as a reduction of interest Expense)	2,123
Notes, Certificates of Participation, Commercial Paper and Other Long-Term Obligations	69,252
Capital lease payable	38,778
Accrued interest payable	5,468
Less: Deferred charge for issuance costs (to be amortized over life of debt)	<u>(3,785)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 342,936</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. Various elements of this reconciliation are explained below. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of such \$37,169,000 difference are as follows (in thousands):

Capital outlay	\$ 52,709
Depreciation expense	<u>(15,540)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 37,169</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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The issuance of long-term debt (for example, bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of such \$88,101,000 difference are as follows (in thousands):

Debt issued or incurred:	
Issuance of revenue bonds	\$ 118,630
Plus premium and less issuance cost	(1,672)
Issuance of notes, certificates of participation, commercial paper and other long-term obligations	3,259
Capital leases	17,125
Principal repayments:	
Revenue obligation debt	(2,855)
Notes, certificates of participation, commercial paper and other long-term obligations	(10,788)
Police and Fire Benefits Paid	(6,437)
Capital leases	(718)
Payment to escrow agent for refunding	(22,395)
Other	<u>(6,048)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (88,101)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of such \$4,345,000 difference are as follows (in thousands):

Increase in liability for police and fire benefits	\$ (2,758)
Accrued interest	(1,575)
Amortization of premium	22
Amortization of issuance cost	<u>(34)</u>
Net adjustment	<u>\$ (4,345)</u>

The net revenues of certain activities of internal service funds are reported with governmental activities. The details of this \$16,144,000 difference are as follows (in thousands):

Change in net assets as reported in the internal service funds	\$ (20,802)
Activities of internal service funds related to enterprise funds are allocated to business-type activities, resulting in a negative internal balance in governmental activities	<u>4,658</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (16,144)</u>

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

NOTE 4 – CASH AND INVESTMENTS

The City maintains a general cash and investment pool for the purpose of maximizing investment returns for most funds except those required to be held by outside fiscal agents. The City's cash and investments pool operates essentially as a demand deposit account for the various funds, and interest income earned on pooled cash and investments is allocated monthly to the funds based on their average daily cash balance. The portion of this pool for each fund type is displayed in the accompanying Statement of Net Assets under the caption entitled "Pooled Cash and Cash Equivalents".

In addition, several of the City's funds are required to maintain separate monies and investments that are held by independent trustees or fiscal agents. These funds are generally pledged to the payment of project costs or security of certain outstanding bonds and certificates of participation. Monies held by these parties, unless otherwise required by statute, may be invested in accordance with the provisions of the enabling ordinances, resolutions or indentures specifying the types of investments the City's trustees or fiscal agents may make. Such ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. The City's trustees invest in specified Federally backed securities, but money may also be temporarily invested in money-market securities. Trustees are not permitted to make investments that are prohibited by the City's general investment policy. Such investments are generally scheduled to mature as cash is needed to fulfill the purposes of the underlying trust agreements. At September 30, 2002, cash with fiscal agents totaled \$264,010,000.

The City's bank reported an overdraft of (\$5,609,000) at September 30, 2002 due to deposits in transit. Deposits at the bank are covered by appropriate Federal insurance, or are collateralized under the California Government Code, which requires California financial institutions to secure a City's deposits by pledging as collateral government securities with a fair value of at least 110% of the City's deposits. At September 30, 2002 the City reported deposits at a fair value of \$7,557,000 net of outstanding checks of \$6,595,000 and deposits in transit of \$19,761,000.

The City is authorized to invest in obligations issued or guaranteed by the Federal Government, its agencies and instrumentalities, as well as in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified management companies.

The City's cash deposits and investments at September 30, 2002 are categorized by maturity date and by the level of custodial credit risk assumed by the City. The risk categories are defined as follows:

Category 1: includes cash deposits which are insured or collateralized with securities held by the City or by its agent in the City's name and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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Category 2: includes cash deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name and uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3: includes cash deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name) and uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. At September 30, 2002, the City held no category 3 type investments.

Not required to be categorized: Investments in pools managed by other governments, mutual funds, or in guaranteed investment contracts.

At September 30, 2002, the City had \$122,432,000 deposited in the California State Treasurer's Local Agency Investment Fund (LAIF), a non-SEC registered, government-sponsored external investment pool. LAIF is a voluntary program established under Section 16429.1-3 of the California Government Code.

LAIF is part of the State of California Pooled Money Investment Account (PMIA) and has oversight provided by the Pooled Money Investment Board (PMIB) and an internal Investment Committee. The PMIB Board members are the State Treasurer, Director of Finance and the State Controller. Additionally, LAIF is subjected to oversight by the Local Investment Advisory Board (LIAB), which consists of five members, as designated by statute. The LIAB's Chairman is the State Treasurer, who appoints the other four members to two-year terms.

Component Unit

The Long Beach Transportation Company (LBT) bank deposits are either entirely covered by appropriate Federal insurance or are collateralized in accordance with provisions of the California Government Code, which requires California financial institutions to secure a public agency's deposits by pledging as collateral government securities with a market value of at least 110% of the Company's deposits.

The LBT's bank reported \$992,000 in deposits at June 30, 2002. The LBT report cash and cash deposits at \$8,000 with the difference representing outstanding checks.

The LBT is authorized to participate in investments in obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities, high-quality commercial paper with a rating of A1 by Standard and Poor's Corporation or P1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified management companies.

LBT management has determined that the differences between fair value and the amortized cost basis of the LBT investments at June 30, 2002 are immaterial.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the accompanying basic financial statements reflect the fair value of the City's investments. The fair value of the City's investments is determined annually and is based upon current market prices. Fair value may also be affected by other external factors such as changing interest rates. For example, increasing interest rates could cause fair value to decline below original cost. The fair value of the City's cash deposits and investments at September 30, 2002 are categorized by maturity date and by level of risk in the following table (in thousands):

	Primary Government					Component Unit	
	Maturity Period						
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Indeterminate	Fair Value	Fair Value
<u>Risk Category 1:</u>							
Cash In Bank	\$ 200	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 8
U.S. Government Securities	41,525	39,920	-	-	-	81,445	-
U.S. Government Agency Securities	59,741	466,211	236,746	-	-	762,698	-
Negotiable Certificates of Deposit	20,002	-	-	-	-	20,002	-
Medium Term Corporate Notes	5,040	42,621	6,997	-	-	54,658	-
Commercial Paper	79,808	-	-	-	-	79,808	-
Assessment Bonds	-	-	-	4,685	-	4,685	-
Municipal Bonds	-	214	-	3,178	-	3,392	-
Total Risk Category 1	206,316	548,966	243,743	7,863	-	1,006,888	8
<u>Risk Category 2:</u>							
Cash In Bank - Collateralized Repurchase Agreement	7,357	-	-	-	-	7,357	-
Funds Held by Fiscal Agents, Consisting Primarily of Federally Backed Securities	-	-	-	-	264,010	264,010	-
Total Risk Category 2	7,357	-	-	-	264,010	271,367	346
<u>Investments Not Required to Be Categorized:</u>							
State and Local Agency Investment Pool	122,432	-	-	-	-	122,432	20,110
Guaranteed Investment Contracts	-	-	-	17,028	-	17,028	-
Total Investments Not Required to Be Categorized	122,432	-	-	17,028	-	139,460	20,110
Total Cash and Investments	<u>\$ 336,105</u>	<u>\$ 548,966</u>	<u>\$ 243,743</u>	<u>\$ 24,891</u>	<u>\$ 264,010</u>	<u>\$ 1,417,715</u>	<u>\$ 20,464</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

A reconciliation of the cash, cash equivalents and investments between the basic financial statements and the fair value of the investment portfolio at September 30, 2002 is as follows (in thousands):

	Primary Government				Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Pooled Cash and Cash Equivalents	\$ 299,756	\$ 398,683	\$ 7,634	\$ 706,073	\$ -
Non-Pooled Cash and Cash Equivalents	130,909	30,111	11,501	172,521	11,444
Restricted Assets:					
Pooled Cash and Cash Equivalents	9,454	425,374	-	434,828	-
Non-Pooled Cash and Cash Equivalents	22,513	51,594	966	75,073	9,020
Non-Pooled Investment	-	38,023	-	38,023	-
Total Deposits and Investments	<u>\$ 462,632</u>	<u>\$ 943,785</u>	<u>\$ 20,101</u>	1,426,518	20,464
Imprest Cash on Hand in Pooled Cash and Cash Equivalents				(625)	-
Adjustment for Accrued Interest Receivable included above				<u>(8,178)</u>	-
Total Cash and Cash Equivalents				<u>\$ 1,417,715</u>	<u>\$ 20,464</u>

Non-pooled cash, cash equivalents and investments are invested in accordance with the City's general investment policy and applicable debt agreements.

GASB 31

Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (GASB No. 31), requires that certain investments and external investment pools be reported at fair value. At September 30, 2002, the effect of valuating the City's investments at fair value did not have a material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2002. Accordingly, in accordance with GASB No. 28, no assets or liabilities have been recorded in the accompanying financial statements.

However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions, and provides for full collateralization of each transaction.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 5 – RECEIVABLES

Receivables at September 30, 2002 for the City's individual major funds, and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows (in thousands). All receivables are expected to be collected within one year, except for delinquent property taxes.

	General	Housing Development	Community Development Grants	General Capital Projects	Redevelopment Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
Governmental Activities:								
Receivables:								
Interest	\$ 21	\$ 4	\$ -	\$ -	\$ 336	\$ -	\$ -	\$ 361
Taxes	8,161	-	-	-	-	-	-	8,161
Accounts	11,303	-	-	-	412	1,865	942	14,522
Notes and Loans	2,413	-	-	-	-	-	-	2,413
Due from Other								
Governments	19,406	-	5,145	4,937	-	8,054	5,986	43,528
Gross Receivables	41,304	4	5,145	4,937	748	9,919	6,928	68,985
Less Allowance for								
Uncollectibles	(9,307)	-	-	-	-	(407)	(142)	(9,856)
Net Receivables	<u>\$ 31,997</u>	<u>\$ 4</u>	<u>\$ 5,145</u>	<u>\$ 4,937</u>	<u>\$ 748</u>	<u>\$ 9,512</u>	<u>\$ 6,786</u>	<u>\$ 59,129</u>

	Gas	Water	Solid Waste Management	Tidelands	Tideland Oil Revenue	Harbor	Nonmajor Proprietary Funds	Total
Business-Type Activities:								
Receivables:								
Interest, Unrestricted	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ 313	\$ -	\$ 418
Interest, Restricted	-	-	-	242	-	-	511	753
Accounts	2,511	4,420	8,239	1,560	26,350	28,059	1,969	73,108
Capital Lease-current	-	-	-	264	-	-	-	264
Due from Other								
Governments	-	-	431	1,331	304	5,089	425	7,580
Gross Receivables	2,511	4,420	8,670	3,502	26,654	33,461	2,905	82,123
Less Allowance for								
Uncollectibles	(461)	(325)	(187)	(86)	-	(858)	(291)	(2,208)
Net Receivables	<u>\$ 2,050</u>	<u>\$ 4,095</u>	<u>\$ 8,483</u>	<u>\$ 3,416</u>	<u>\$ 26,654</u>	<u>\$ 32,603</u>	<u>\$ 2,614</u>	<u>\$ 79,915</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2002 is as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Due to / from Other Funds:</u>		
General	Redevelopment Capital Projects	\$ 4,882
	Nonmajor Governmental Funds	750
Subtotal - General Fund		<u>5,632</u>
General Capital Projects	Community Development Grants	431
Redevelopment Capital Projects	Internal Service Funds	7
Gas	Tidelands	578
Tidelands	Harbor	8,677
Harbor	Redevelopment Capital Projects	12,164
Internal Service Funds	General	1,182
	Housing Development	4
	Community Development Grants	18
	General Capital Projects	21
	Redevelopment Capital Projects	7
	Nonmajor Governmental Funds	132
	Gas	60
	Water	92
	Solid Waste Management	47
	Tidelands	61
	Tidelands Oil Revenue	20
	Harbor	204
	Nonmajor Business-type Funds	53
	Internal Service Funds	145
Subtotal Internal Service Funds		<u>2,046</u>
Total Due to / from Other Funds		<u>29,535</u>
<u>Advances from / to Other Funds:</u>		
General	Redevelopment Capital Projects	90,370
	Nonmajor Governmental Funds	2,000
	Nonmajor Business-type Funds	2,883
Subtotal - General Fund		<u>95,253</u>
Housing Development	Redevelopment Capital Projects	21,682
Community Development Grants	Housing Development	4,467
General Capital Projects	Redevelopment Capital Projects	1,877
Redevelopment Capital Projects	Tidelands	1,968
Gas	Tidelands	7,545
Harbor	Redevelopment Capital Projects	27,435
Total Advances from / to Other Funds		<u>160,227</u>
Total Interfund Balances Entity Wide		189,762
Less Amounts Eliminated on the Entity-Wide Basis		<u>(160,209)</u>
Entity-Wide Internal Balances		<u>\$ 29,553</u>

CITY OF LONG BEACH
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Due To / Due From Other Funds

At year-end the Redevelopment Capital Projects Fund owes the General Fund \$4,882,000 for an interim loan to fund estimated Redevelopment Agency operating costs. This will be paid in the next fiscal year as tax increment revenues are received.

The General Fund has advanced cash in the amount of \$750,000 to the Special Advertising and Promotion Special Revenue Fund to cover City promotional costs incurred prior to the receipt of the transient occupancy taxes.

The City, by authority of the City Charter Chapter XII, Section 1209(c)(4), and with the approval of the Board of Harbor Commissioners adopted a resolution to transfer 10%, or \$8,677,000, of the Harbor Fund net income for fiscal year 2001 to the City's Tidelands Fund. This amount is recorded as a due to the General Fund and due from the Harbor Fund and will be paid quarterly in fiscal year 2003.

The Redevelopment Agency (Agency) entered into an agreement with the Port of Long Beach (Port) for construction costs related to improvements in the Port's North Harbor District, which is located in the Agency's West Long Beach Industrial Redevelopment Project Area. Under the agreement, costs related to the improvements will be reimbursed by the Agency up to \$30,000,000, subject to a maximum annual amount of \$2,500,000. In October 1997, the agreement was amended to defer the payment to October 1, 1998 at the maximum annual amount of \$2,500,000. In November 1998, the agreement was further amended to allow quarterly payments in the amount of \$450,000 for a maximum annual amount of \$1,800,000 for the fiscal year ending September 30, 2000. Further amendments required quarterly payments of \$625,000 until April 1, 2006. During the fiscal year ended September 30, 2000 only \$1,250,000 was paid to the Port. In April 2001, the agreement was again amended, and required the Agency to pay the Port the total available funds generated in the previous fiscal year or specified minimum payments for each fiscal year. Available funds are the total revenues received by the Agency on behalf of the West Long Beach Industrial Project Area, less permitted expenditures. The minimum amount paid in the prior fiscal year was \$500,000 and \$1,083,000 was paid in the current fiscal year. An Acknowledgement of Payment in Full of Reimbursement Obligation and Disposition of Funds regarding the Amended and Restated Cooperation Agreement was signed in November 2002 that provided full payment of the debt from future bond proceeds for \$12,164,000. At September 30, 2002, the net unreimbursed expenditures made by the Port on behalf of the Agency of \$12,164,000 have been recorded as an advance payable in the Redevelopment Agency Capital Projects Fund and the corresponding receivable in the Harbor Fund.

Employee Benefit overhead costs, such as funding for health benefits and paid time off, relating to the wages and salaries accrued at September 30, 2002 are payable from various funds to the Employee Benefits Internal Service Fund in the amount of \$2,046,000 at September 30, 2002.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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Advances from Other Funds

Advances to/from other funds have been recorded for amounts which will be repaid usually with interest over an extended period of time.

From 1974 to 2002, the City provided the Redevelopment Agency (the Agency) with certain Federal grant monies for use on redevelopment projects. The Agency makes discretionary payments to the City annually, which in fiscal year 2002 amounted to approximately \$3,333,000. At September 30, 2002, the outstanding balances of these transfers approximated \$90,370,000, \$4,020,000 and \$1,877,000 in the General Fund, Housing Development Special Revenue Fund, and General Capital Projects Fund, respectively, with the latter being for land acquisition and planning and engineering services provided by the City. It is the intent of the City and the Agency that the Agency repay these transfers as future property tax increment revenues permit. Due to the long-term nature of repayment, the City has reserved these interfund receivables in the General Fund, Housing Development Special Revenue Fund and General Capital Projects Fund as fund balance reserved for noncurrent receivables.

The Agency has entered into a financing agreement with the Port of Long Beach (Harbor Fund), under which the Agency was advanced \$30,000,000 for the expansion of the Long Beach Convention and Entertainment Center. A payment of \$1,765,000 was made on the note by the Agency in November 1998. An amendment deferred payments to be made in quarterly installments of \$441,000 over 16 years, beginning in 2002. At September 30, 2002, the balance of this advance is \$27,435,000. The note is payable solely from transient occupancy taxes levied in the Redevelopment Downtown Project area. The repayment to the Port is subordinated to a pledge to fund payments of the Aquarium of the Pacific Project 2001 bond issue in the event that the Aquarium revenues do not cover debt service payments. This advance is reported in the Redevelopment Capital Projects Fund and the corresponding receivable is reported in the Harbor Fund.

California Redevelopment law requires that 20% of annual net tax increment revenues be set aside for low and moderate income housing. The law allows a deferral of such set aside under certain circumstances. In December, 1995 the Agency adopted a Downtown Project Area Housing Fund Deficit Reduction Plan that called for an analysis of available tax increment and existing obligations beginning in 2010 and every two years thereafter until reduction of the deferred debt is found feasible and commences. For the West Beach Project Area, the Agency paid in full the deferred set aside of \$938,000 from proceeds of tax allocation bonds in the current fiscal year. The resulting interfund receivable and offsetting non-current receivable reserved fund balance aggregating \$17,662,000 have been recorded as advances to/from other funds in the Housing Development Special Revenue Fund and the Redevelopment Agency Capital Projects Fund, respectively for the Downtown Project Area.

In the fiscal year 2000, the Housing Development Company (Company) entered into a zero interest loan agreement for \$805,000 with the City for the acquisition of an 8-unit apartment building. The building will be converted into a 4-unit condominium complex and sold to low-income, first-time home buyers. The Company shall make the principal payments using one hundred percent (100%) of the proceeds from the sales of the reconfigured units. Any remaining balance of the promissory note will be forgiven after all

CITY OF LONG BEACH
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units are sold. As of September 30, 2002 the City has advanced the Company \$780,000 recorded as advances to/from other funds in the Community Development Grants Special Revenue Fund and the Redevelopment Capital Projects Fund, respectively.

During the current fiscal year, the Company entered into a \$4,000,000 Home grant funds zero interest loan agreement with the City for the acquisition of twenty-six parcels of land, each with a four-plex apartment building, for the Grisham project. Twenty-three parcels were sold to the developer during the fiscal year for the purpose of rehabilitating the properties for affordable rental housing for low and very low-income residents. The Company shall make the principal payments to the City using 25% of the proceeds from repayments of promissory notes from the developer. Any remaining balance of the promissory note owed on April 1, 2034 shall be immediately due and payable. As of September 30, 2002 the City has advanced the Company \$3,687,000, net of a loan repayment of \$16,000, which is recorded as advances to/from other funds in the Community Development Grants Special Revenue Fund and the Redevelopment Capital Projects Fund, respectively.

In November 1993 the City issued \$13,490,000 in Gas Utility bonds with interest rates ranging from 2.6% to 5.125% to construct an energy plant adjacent to the Long Beach Convention and Entertainment Center. The Gas Revenue Fund debt due in 2013 is funded, payable by an annual payment from the Tidelands Fund in an amount necessary to cover the debt service requirements with respect to the Gas Utility Bonds. The long-term amount due at September 30, 2002 is \$7,545,000. The current amount due in fiscal year 2003 is \$578,000.

The General Fund has advanced the Health Special Revenue Fund \$2 million to cover cash flow. This debt has no anticipated repayment date.

The Airport Enterprise Fund reimburses the General Fund for City services provided within the Airport area by the General Fund, including police and fire services. The Airport was not able to pay for certain costs in previous years due to a decline in flights and revenues. The amount due has been recorded as a long-term advance payable in the amount of \$2,883,000 at September 30, 2002. The amount increased \$676,000 in fiscal year 2002. The repayment schedule will be contingent on the Airport increasing flights in and out of the Long Beach Airport.

In fiscal year 2002, the Redevelopment Agency Capital Projects Fund advanced \$1,924,000 to the Tidelands Fund. Such monies arose from transient occupancy taxes. According to the Owner Participation Agreement by and among the Redevelopment Agency of the City of Long Beach, Long Beach Bond Finance Authority and the Aquarium of the Pacific, all Redevelopment Agency Fund transient occupancy taxes are pledged to fund the debt service payments of the Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001 if needed. The Redevelopment Agency shall be reimbursed for any such advance together with interest, at a rate of interest equal to the rate earned on the City Treasurer's Investment Pool as monies are available. Interest in the amount of \$44,000 has been accrued for fiscal year 2002.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Interfund Transfers

The City regularly transfers current financial resources from one fund to another. At September 30, 2002 interfund transfers are as follows (in thousands):

	Transfers Out:						
	General	Community Develop- ment Grants	General Capital Projects	Redevelop- ment Capital Projects	Nonmajor Govern- mental Funds	Tidelands	Total Transfers Out
Transfers In:							
General	\$ -	\$ -	\$ 9,035	\$ -	\$ 8,046	\$ -	\$ 17,081
Housing Development	-	44	-	147	-	-	191
Community Development Grants	-	-	588	15	-	-	603
General Capital Projects	2,462	-	-	-	252	-	2,714
Redevelopment Capital Projects	-	-	-	-	1,867	2,424	4,291
Nonmajor Governmental	10,223	-	1,300	-	-	110	11,633
Gas	7,851	-	-	-	-	-	7,851
Tideland Oil Revenue	-	-	-	-	-	3,493	3,493
Harbor	-	-	-	-	-	8,677	8,677
Internal Service Funds	7,276	-	-	-	-	-	7,276
Total Transfers In	\$ 27,812	\$ 44	\$ 10,923	\$ 162	\$ 10,165	\$ 14,704	\$ 63,810

The significant transfers include:

The General Fund transferred \$9,035,000 to the Capital Projects Fund for ongoing projects such as City street construction, ADA modifications and City building improvements, maintenance and repairs.

The General Fund received \$7,506,000 in Motor Vehicle License fees committed to health care services under Assembly Bill 1288. These were transferred to the Health Special Revenue Fund to fund costs associated with the City's Health Department.

The Gas Fund transferred \$7,500,000 to the General Fund and \$351,000 to partially fund the City's municipal band.

The Upland Oil Special Revenue Nonmajor Fund transferred \$3,321,000 to the General Fund from royalties on oil drilled on City land.

The Gas Tax Special Revenue Nonmajor Fund transferred \$6,895,000 to the General Fund as reimbursement for allowable street costs incurred in the General Fund.

The Redevelopment Agency Capital Projects Fund transferred \$500,000 to the Tidelands Fund to partially fund the Convention Center energy plant and \$1,924,000 from transient occupancy taxes to partially fund the Aquarium of the Pacific debt according to an agreement with the City and the Redevelopment Agency.

The Harbor Fund accrued an operating transfer of \$8,677,000 due to the Tidelands Fund as allowed in the City Charter.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

The Tidelands Oil Revenue Fund shares revenue from the tidelands oil operation under an optimized flood program. In fiscal year 2002, \$3,493,000 was transferred to the Tidelands Fund from the Tidelands Oil Revenue Fund under this program.

Internal Service Fund transfers also reflect cable franchise fee revenue from the General Services Internal Service Fund and unexpended surplus in the Employee Benefits Internal Service Fund which have been transferred to the General Fund.

NOTE 7 – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2002 is as follows (in thousands):

<u>Governmental Activities:</u>	<u>Balance at October 1, 2001, as Restated</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at September 30, 2002</u>
Capital Assets, not being Depreciated:				
Land	\$ 112,923	\$ 2,946	\$ (1,487)	\$ 114,382
Right of way	134	-	-	134
Construction In Progress	70,818	66,288	(6,108)	130,998
Total Capital Assets not being Depreciated	<u>183,875</u>	<u>69,234</u>	<u>(7,595)</u>	<u>245,514</u>
Capital Assets, being Depreciated:				
Buildings	150,379	25	(590)	149,814
Improvements Other than Buildings	29,863	4,008	(609)	33,262
Infrastructure	269,528	-	-	269,528
Machinery and Equipment	45,947	3,983	(648)	49,282
Automotive	74,600	4,506	(8,307)	70,799
Other Assets	30,719	-	-	30,719
Total Capital Assets being Depreciated	<u>601,036</u>	<u>12,522</u>	<u>(10,154)</u>	<u>603,404</u>
Less Accumulated Depreciation for:				
Buildings	(45,422)	(4,745)	516	(49,651)
Improvements Other than Buildings	(10,500)	(1,873)	351	(12,022)
Infrastructure	(133,225)	(8,029)	-	(141,254)
Machinery and Equipment	(31,185)	(6,241)	617	(36,809)
Automotive	(45,043)	(6,129)	8,250	(42,922)
Other Assets	(19,361)	(1,420)	-	(20,781)
Total Accumulated Depreciation	<u>(284,736)</u>	<u>(28,437)</u>	<u>9,734</u>	<u>(303,439)</u>
Total Capital Assets being Depreciated, Net	<u>316,300</u>	<u>(15,915)</u>	<u>(420)</u>	<u>299,965</u>
Governmental Activities Capital Assets, Net	<u>\$ 500,175</u>	<u>\$ 53,319</u>	<u>\$ (8,015)</u>	<u>\$ 545,479</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Depreciation has been charged to functions/programs of governmental activities as follows (in thousands):

Legislative and Legal	\$ 7
General Government	202
Public Safety	1,822
Public Health	236
Community and Cultural	5,654
Public Works	7,620
Capital Assets held by City's internal services funds allocated to various functions on a prorated basis based on their usage of the assets	<u>12,896</u>
	<u><u>\$ 28,437</u></u>

Capital Asset activity for business-type activities for the year ended September 30, 2002 is as follows (in thousands):

Business-type Activities:	Balance at October 1, 2001, as Restated	Increase	Decrease	Balance at September 30, 2002
Capital Assets, not being Depreciated:				
Land	\$ 860,235	\$ 17,229	\$ (24,376)	\$ 853,088
Right-a-way	208,055	9	(555)	207,509
Construction In Progress	391,412	333,562	(530,080)	194,894
Total Capital Assets not being Depreciated	<u>1,459,702</u>	<u>350,800</u>	<u>(555,011)</u>	<u>1,255,491</u>
Capital Assets, being Depreciated:				
Buildings	1,342,689	453,804	(40,568)	1,755,925
Improvements other than Buildings	278,450	8,767	-	287,217
Infrastructure	815,983	40,413	(1,210)	855,186
Machinery and Equipment	23,093	576	(4,294)	19,375
Automotive	20,709	948	(868)	20,789
Total Capital Assets being Depreciated	<u>2,480,924</u>	<u>504,508</u>	<u>(46,940)</u>	<u>2,938,492</u>
Less Accumulated Depreciation for:				
Buildings	(520,981)	(50,059)	12,507	(558,533)
Improvements other than Buildings	(151,287)	(7,705)	-	(158,992)
Infrastructure	(411,798)	(25,505)	545	(436,758)
Machinery and Equipment	(16,275)	(2,172)	4,175	(14,272)
Automotive	(14,221)	(715)	787	(14,149)
Total Accumulated Depreciation	<u>(1,114,562)</u>	<u>(86,156)</u>	<u>18,014</u>	<u>(1,182,704)</u>
Total Capital Assets being Depreciated, Net	<u>1,366,362</u>	<u>418,352</u>	<u>(28,926)</u>	<u>1,755,788</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 2,826,064</u></u>	<u><u>\$ 769,152</u></u>	<u><u>\$ (583,937)</u></u>	<u><u>\$ 3,011,279</u></u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Depreciation has been charged to functions/programs of business-type activities as follows (in thousands):

Gas	\$ 3,185
Water	7,748
Sewer	1,171
Airport	1,996
Solid Waste Management	4,919
Towing	15
Tidelands	14,095
Harbor	53,027
	<u>\$ 86,156</u>

Capitalization of Interest

The City capitalized net interest expense of \$16,819,000 in its Harbor Fund in fiscal year 2002. Total interest expense incurred for the Harbor Fund was \$54,839,000 in fiscal year 2002.

Component Unit

Capital asset activity of the LBT for the year ended June 30, 2002 was as follows (in thousands):

	Balance at July 1, 2001	Increases	Decreases	Balance at June 30, 2002
Capital Assets, not being Depreciated:				
Land	\$ 5,525	\$ -	\$ -	\$ 5,525
Construction in Progress	923	1,660	-	2,583
Total Capital Assets not being Depreciated	<u>6,448</u>	<u>1,660</u>	<u>-</u>	<u>8,108</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	28,900	921	-	29,821
Fleet	68,342	6,603	(6,354)	68,591
Communications Systems	2,247	28	-	2,275
Fare Collection System	1,659	1	-	1,660
Office, Shop and Garage Equipment	8,535	4,076	(32)	12,579
Passenger Facilities	1,054	420	(72)	1,402
Total Capital Assets being Depreciated:	<u>110,737</u>	<u>12,049</u>	<u>(6,458)</u>	<u>116,328</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(9,858)	(1,275)	-	(11,133)
Fleet	(34,118)	(8,021)	5,704	(36,435)
Communications Systems	(2,005)	(74)	-	(2,079)
Fare Collection System	(1,244)	(91)	-	(1,335)
Office, Shop and Garage Equipment	(5,951)	(1,180)	26	(7,105)
Passenger Facilities	(299)	(274)	72	(501)
Total Accumulated Depreciation	<u>(53,475)</u>	<u>(10,915)</u>	<u>5,802</u>	<u>(58,588)</u>
Total Capital Assets being Depreciated, Net	<u>57,262</u>	<u>1,134</u>	<u>(656)</u>	<u>57,740</u>
Total LBT Capital Assets, Net	<u>\$ 63,710</u>	<u>\$ 2,794</u>	<u>\$ (656)</u>	<u>\$ 65,848</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 8 – CHANGE IN LONG – TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2002, was as follows (in thousands):

	Balance at October 1, 2001	Additions	Reductions	Balance at September 30, 2002	Due Within One Year
Governmental Activities:					
Bonds Payable					
Revenue Bonds	\$ 191,085	\$ 128,865	\$ (76,575)	\$ 243,375	\$ 5,800
Tax Allocation Bonds	121,480	77,715	(25,135)	174,060	3,570
Plus (less) deferred amounts:					
Premium	-	2,142	(22)	2,120	-
Discount	(2,330)	-	319	(2,011)	-
Refunding	(1,295)	(14,279)	254	(15,320)	-
Issuance Cost	(3,124)	(5,244)	1,532	(6,836)	-
Total Bonds Payable	305,816	189,199	(99,627)	395,388	9,370
Notes Payable	31,160	3,285	(16,836)	17,609	1,216
Capital Leases	30,421	19,649	(4,391)	45,679	6,742
Police and Fire	51,222	2,758	(6,437)	47,543	-
Arbitrage Payable	513	-	-	513	-
Estimated Oil Field Abandonment Costs	4,100	-	-	4,100	-
Accrued Self-Insured Claims	69,178	32,538	(15,875)	85,841	20,170
Employee Benefits	52,879	4,977	(3,461)	54,395	4,327
Governmental Activities Long-Term Liabilities	<u>\$ 545,289</u>	<u>\$ 252,406</u>	<u>\$ (146,627)</u>	<u>\$ 651,068</u>	<u>\$ 41,825</u>
Business-Type Activities:					
Bonds Payable					
Revenue Bonds	\$ 1,308,845	\$ 300,000	\$ (26,665)	\$ 1,582,180	\$ 39,380
Plus (less) deferred amounts:					
Premium	13,748	8,778	(801)	21,725	-
Discount	(6,471)	-	331	(6,140)	-
Refunding	(19,590)	-	1,270	(18,320)	-
Issuance Cost	(13,478)	(2,943)	809	(15,612)	-
Total Bonds Payable	1,283,054	305,835	(25,056)	1,563,833	39,380
Certificates of Participation	18,620	-	(835)	17,785	880
Discount	(397)	-	35	(362)	-
Refunding	(1,017)	-	95	(922)	-
Issuance Cost	(534)	-	44	(490)	-
Total Certificates of Participation	16,672	-	(661)	16,011	880
Notes Payable	144,899	82	(75,757)	69,224	783
Capital Lease	14,244	-	(1,439)	12,805	1,582
Due to State of California	9,323	15,396	(11,416)	13,303	12,559
Accrued Oil Field Abandonment Costs	266,100	1,600	(87)	267,613	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,734,292</u>	<u>\$ 322,913</u>	<u>\$ (114,416)</u>	<u>\$ 1,942,789</u>	<u>\$ 55,184</u>

CITY OF LONG BEACH
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NOTE 9 – BONDS PAYABLE

At September 30, 2002 bonded indebtedness consisted of the following (in thousands):

Description	Date Issued	Final Maturity	Range of Interest Rates*	Authorized and Issued	Outstanding at September 30, 2002
<u>GOVERNMENTAL ACTIVITIES</u>					
GENERAL CITY REVENUE BONDS					
Long Beach Museum of Art Project	10/15/99	09/01/09	Variable	\$ 3,060	\$ 3,060
Belmont Shore Parking Meter	06/30/93	06/30/13	5.75%	2,220	1,565
Parking Plaza Bonds	06/14/01	11/01/27	4.4%-5.375%	11,500	11,500
Public Safety Facility	03/01/02	11/01/31	3.0%-5.25%	40,915	40,915
Total General City Revenue Bonds				<u>57,695</u>	<u>57,040</u>
REDEVELOPMENT REVENUE BONDS					
Tax Allocation Bonds:					
1992 Multiple Series -					
Downtown Project Refunding	12/01/92	11/01/22	2.9% - 6.0%	81,020	65,595
West Long Beach Industrial TAB	12/01/92	11/01/22	2.9% - 6.0%	36,470	30,750
2002 West Beach	06/25/02	08/01/18	3.0%-5.375%	8,895	8,895
2002 Downtown Project	06/25/02	08/01/24	3.0%-5.375%	26,820	26,820
2002 North Long Beach	06/25/02	08/01/31	3.0%-5.375%	40,290	40,290
2002 Poly High	06/25/02	08/01/12	3.0%-5.375%	1,710	1,710
Total Redevelopment Revenue Bonds				<u>195,205</u>	<u>174,060</u>
INTERNAL SERVICE BONDS					
Civic Center Fund:					
1997 Civic Center Project Series A	12/01/97	10/01/27	4.0% - 5.0%	43,655	40,015
Fleet Services:					
1998 Temple and Willow Facility Series A & B	05/01/98	10/01/27	5.0%-6.0%	38,065	35,495
Employee Benefits Fund:					
Pension Obligation Refunding Bonds Series 2002	09/01/02	09/01/21	Variable	87,590	87,950
Pension Obligation Bonds Series 1995	10/01/95	09/01/11	5.90% - 7.24%	23,920	22,875
Total Employee Benefits				<u>111,510</u>	<u>110,825</u>
Total Internal Service Funds				<u>193,230</u>	<u>186,335</u>
Total Governmental Activities Bonds Payable				<u>446,130</u>	<u>417,435</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
ENTERPRISE REVENUE BONDS					
Gas Fund:					
1993 Gas Utility	11/01/93	11/01/13	2.6% - 5.125%	13,490	9,440
Water Fund:					
1997A Water	10/01/97	05/01/24	4.0% - 5.75%	46,945	40,155
Solid Waste Management Fund:					
1995 SERRF	10/01/95	12/01/18	Variable	143,300	129,300
Tidelands Fund:					
Aquarium of the Pacific	05/03/01	11/01/30	3.875%-5.5%	129,520	129,520
1994 Marina Subordinate Revenue Bond	04/01/94	04/01/09	6.25%	1,310	760
1995 Marina Refunding Revenue Bond	11/01/95	01/15/08	3.85% - 5.15%	31,725	17,795
1999 Rainbow Harbor Financing Project	07/01/99	05/01/24	4.25%-5.5%	47,970	47,905
Total Tidelands Fund				<u>210,525</u>	<u>195,980</u>
Harbor Fund:					
1993 Harbor	10/01/93	05/15/18	4.5%-5.125%	166,500	133,130
1995 Harbor	11/01/95	05/15/25	5.25%-9.0%	343,420	314,095
1998 Harbor	02/01/98	05/15/19	5.25%-9.0%	206,330	185,080
2000 Harbor	05/15/01	05/15/25	5%-5.75%	275,000	275,000
2002 Harbor	06/19/02	05/15/27	Variable	300,000	300,000
Total Harbor Fund				<u>1,291,250</u>	<u>1,207,305</u>
Total Business-Type Activities Bonds Payable				<u>1,705,510</u>	<u>1,582,180</u>
Total Primary Government Bonded Indebtedness				<u>\$ 2,151,640</u>	<u>\$ 1,999,615</u>

* Interest on all bonded indebtedness is payable semi-annually except 1995 SERRF, the Long Beach Museum of Art Project, the Pension Obligation Bonds Series 2002 and 2002 Harbor Bonds which are paid monthly.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

In March 2002, the City issued \$40,915,000 in Long Beach Bond Finance Authority Lease Revenue bonds, Public Safety Facilities Projects, Series 2002. The bonds were issued to finance the construction and improvement of certain public safety and fire department facilities in the City, to fund a reserve account, to pay a portion of capitalized interest and to pay certain costs of issuance on the Series 2002 bonds. Interest rates range from 3.0% to 5.25%.

In June 2002, the City issued the City of Long Beach Harbor Revenue Bonds Series 2002 A & B (the 2002 Bonds). The 2002 Bonds are secured by the Harbor Enterprise Fund. The 2002 Bonds, dated June 19, 2002, in the amount of \$300,000,000 were issued to finance certain capital improvements at the Port of Long Beach, to current refund a portion of the Department's Commercial Paper Notes, and to finance the costs of issuance. The 2002 bonds will be called before maturity and redeemed at a redemption price equal to the par amount thereof from mandatory sinking account payments deposited in the principal account. Deposits into the principal account will mature on May 15 of each year from 2003 to 2027 in amounts ranging from \$5,300,000 to \$21,200,000 with interest payable semiannually on May 15 and November 15. The 2002 bonds will initially bear interest at the long-term interest rate of 4.0% until the mandatory tender date of May 14, 2004. At the end of the initial long-term interest rate period, and upon satisfaction of certain conditions, the 2002 bonds will bear interest at a different long-term interest rate or rates at a daily, weekly, interest rate, bond interest term rate, fixed interest rate or auction rate.

Debt service payments to maturity for governmental activities bonds are as follows (in thousands):

Year-End	Principal Payments By Fund - Governmental Activities								Annual Debt Service Requirements		
	Museum of Art Project	Belmont Shore Parking Revenue	Parking Plaza	Public Safety Facility	Redevelopment Capital Projects	Civic Center	Fleet	Employee Benefits	Principal	Interest	Total
2003	\$ -	\$ 125	\$ -	\$ -	\$ 3,570	\$ 850	\$ 710	\$ 4,115	\$ 9,370	\$ 21,896	\$ 31,266
2004	-	130	240	-	4,212	885	740	4,515	10,722	20,983	31,705
2005	-	140	255	-	4,437	925	770	4,940	11,467	20,432	31,899
2006	-	145	265	810	4,705	970	805	5,390	13,090	19,815	32,905
2007	-	155	280	835	4,972	1,015	835	5,925	14,017	19,139	33,156
2008 - 2012	3,060	870	1,600	4,580	29,822	5,850	4,815	33,840	84,437	83,243	167,680
2013 - 2017	-	-	2,030	5,710	38,465	7,505	6,150	26,050	85,910	61,552	147,462
2018 - 2022	-	-	2,630	7,365	47,337	9,640	7,970	26,050	100,992	37,307	138,299
2023 - 2027	-	-	3,405	9,495	26,116	12,375	12,700	-	64,091	15,172	79,263
2028 - 2032	-	-	795	12,120	10,424	-	-	-	23,339	3,233	26,572
Totals	<u>\$ 3,060</u>	<u>\$ 1,565</u>	<u>\$ 11,500</u>	<u>\$ 40,915</u>	<u>\$ 174,060</u>	<u>\$ 40,015</u>	<u>\$ 35,495</u>	<u>\$ 110,825</u>	<u>\$ 417,435</u>	<u>\$ 302,772</u>	<u>\$ 720,207</u>

The Long Beach Museum of Art Project principal of \$3,060,000 is due September 1, 2009. Interest is payable monthly at variable interest rates. Rates for fiscal year 2002 ranged from 1.05% to 1.94%. For purposes of illustration a fixed rate of 1.34% has been used in the table above. The Employee Benefits Fund Pension Obligation Bonds Series 2002 interest is payable monthly at variable interest rates. The bonds were issued September 1, 2002. The debt service requirements to maturity for these bonds for the purpose of illustration are based on 4% based on the bond trust agreement. The Harbor 2002 Bonds debt service requirements to maturity for the purpose of illustration are based on 4%.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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Annual principal payment requirements to maturity for business-type activities revenue bonds and the funds from which payments will be made are as follows (in thousands):

Year-End	Principal Payments by Fund -- Business-Type Activities					Total Annual Debt Service Requirements		
	Gas	Water	Solid Waste Management	Tidelands	Harbor	Principal	Interest	Total
2003	\$ 600	\$ 1,570	\$ 4,200	\$ 2,865	\$ 30,145	\$ 39,380	\$ 78,179	\$ 117,559
2004	625	1,645	4,500	3,005	32,590	42,365	77,492	119,857
2005	655	1,110	4,800	4,515	34,995	46,075	75,239	121,314
2006	685	1,155	5,100	7,425	36,950	51,315	72,882	124,197
2007	720	1,210	5,500	7,685	38,980	54,095	70,364	124,459
2008 - 2012	4,175	7,030	33,800	28,820	229,455	303,280	309,317	612,597
2013 - 2017	1,980	9,130	47,600	32,585	301,045	392,340	222,926	615,266
2018 - 2022	-	11,740	23,800	42,105	284,565	362,210	120,735	482,945
2023 - 2027	-	5,565	-	41,710	218,580	265,855	39,093	304,948
2028 - 2032	-	-	-	25,265	-	25,265	3,561	28,826
Totals	<u>\$9,440</u>	<u>\$40,155</u>	<u>\$ 129,300</u>	<u>\$195,980</u>	<u>\$1,207,305</u>	<u>\$1,582,180</u>	<u>\$1,069,788</u>	<u>\$2,651,968</u>

Advance Refundings

During the fiscal year ended September 30, 2002 the City advance refunded debt issues in order to take advantage of declining interest rates, to provide additional capital for related projects and/or to extend the term of the bonds.

In June 2002, the Redevelopment Agency (Agency) of the City of Long Beach issued \$77,715,000 in Long Beach Bond Finance Authority Tax Allocation Revenue Bonds (Downtown, North Long Beach, Poly High and West Beach Redevelopment Project Areas) 2002 Series A (2002 Series A) bonds. These 2002 Series A bonds were issued to advance and current refund the 1987 Tax Allocation Bonds – West Beach Project Bonds with interest rates ranging from 5.25% to 7.1%, the 1992 Series B – Downtown Project with interest rates ranging from 3.5% to 7.875%, and 1997 Series – Downtown Project with interest rates ranging from 4.25% to 5.125% and to finance certain redevelopment projects of the Agency, to fund reserve accounts, and to pay certain issuance costs for the 2002 Series A bonds. The 2002 Series A interest rates range from 3.0% to 5.375%.

In August 2002, the City issued \$87,950,000 in City of Long Beach Taxable Pension Obligation Refunding Bonds Series 2002 A and Series 2002 B to provide for the payment and defeasance of a portion of the Pension Obligation Bonds Series 1995 (Prior Bonds). The Prior Bonds were outstanding in the aggregate principal amount of \$97,705,000 and the City provided for the defeasance of \$73,785,000 or approximately 75.52% of the Prior Bonds. The issue resulted in an accounting loss of \$14,279,000 and an economic loss of \$6,750,000. Aggregate debt service based on 5.06% interest rate, which includes marketing and auction fees, required for deposit on the debt service for the initial year increased \$36,671,000 by extending the final debt payment from fiscal year 2011 to fiscal year 2021. Interest on the bonds is variable based on an auction rate established pursuant to Auction Procedures defined in the bond official statement.

In addition to the above advance refunding issue, the City has previously advance refunded several outstanding bond issues. Each of these refunding transactions resulted in

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an overall economic gain to the City by providing for a substantial savings in cash flow requirements to service the outstanding debts. For financial reporting purposes, however, such refunding transactions generally result in accounting losses. In accordance with generally accepted accounting principles in effect at the time of the transaction, such accounting losses were recognized by the City in the year of refunding and the corresponding economic gains are recognized by the City as they occur.

The proceeds from the City's refunding issues have been placed in irrevocable escrow accounts overseen by independent bank fiscal agents. Such proceeds have been generally invested in U.S. Treasury Securities, which, together with interest earned thereon, are intended to provide amounts sufficient for future payment of interest, principal and redemption premium on the refunded bonds. These refunded bonds have not been included as City outstanding long-term debt since the City's obligation thereon was satisfied by establishing the irrevocable trusts.

As of September 30, 2002, the total amount of the defeased debt outstanding and removed from the City's funds and account groups aggregated \$265,340,000.

Interest Rate "Swap Agreement"

The City had entered into a six-year interest rate "swap agreement" for the \$143,300,000 variable rate 1995 SERRF revenue bonds. Based on the "swap agreement", the City owed interest calculated at a fixed rate of 6.715% to the "swap" counterparty. In return, the counterparty owes the City interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$143,300,000 in bond principal has not been exchanged and serves as the basis on which the interest payments are calculated. At September 30, 2002, the bond principal outstanding is \$129,300,000.

Effective May 1, 2002 the swap agreement expired. The City continues to pay interest to the bondholders at the variable rate provided by the bonds. During the term of the "swap agreement", through May 1, 2002, the City effectively paid a fixed rate of 6.715% on the debt. From May 1, 2002 through September 30, 2002 the variable interest rate varied from 1.09% to 1.68%. At this time the City has not entered into another swap agreement. The debt service requirements to maturity for the affected bonds for purposes of illustration are based on a fixed rate of 4.0% based on current estimates.

Special Assessment Debt

The City serves as the facilitating agent for a number of no-obligation special assessment debt issues. Funding from these issues has been used to improve streets and other City infrastructure, as well as assisting City residents with the cost of major structural repairs and installation of seismic resistant improvements to their properties. The City has no obligation to service the debt on these special assessment issues; therefore, no liability has been recorded in the City's books for the special assessment debt.

The proceeds from special assessment debt issued for City infrastructure improvements are accounted for in the General Capital Projects Fund. The proceeds from special assessment debt issued for the Pike Public Improvements is accounted for in the Rainbow

CITY OF LONG BEACH
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Harbor Area Segment of the Tidelands Fund. Special assessment revenues to repay the debt issues are being accounted for in Agency Funds.

At September 30, 2002, aggregate special assessment debt issued through the City consisted of seven issues, summarized as follows:

- Dates Issued: 6/1/90 – 7/11/02
- Final Maturities: 9/2/05 – 10/01/32
- Range of Interest Rates: 2.625% – 10.5%
- Amounts Authorized and Issued: \$1,396,000 – \$43,000,000
- Range of Amounts Outstanding: \$213,000 – \$43,000,000
- Aggregate Outstanding at September 30, 2002: \$81,286,000

Pike Public Improvements

In June 2002, the City of Long Beach Community Facilities District No. 6 2002 Special Tax Bonds (Pike Public Improvement Bonds) were issued in the amount of \$43,000,000 under the provisions of the Mello-Roos Community Facilities Act of 1982. The Pike Public Improvement Bonds were issued to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements in the Pike Development Project in undeveloped oceanfront land adjacent to the downtown area of the City. A substantial portion of the proceeds will be applied to finance the cost of a Pike parking structure. The bonds do not constitute a debt of the City, therefore, no liability has been recorded in the City's books. The debt is payable from special tax revenues levied on the property within the district. (See Note 22.)

Earthquake Assessment

In 1990, the City, acting on behalf of certain property owners, formed the Earthquake Repair Assessment District 90-3 (District). In June 1991, the District issued \$17,440,000 of City of Long Beach Earthquake Repair Assessment District No. 90-3 Limited Obligation Improvement Bonds (Bonds) for the construction and installation of seismic resistance improvements to eligible commercial and residential properties within the City. The principal and interest was to be paid from the annual collection of special assessments on property within the District. As of September 30, 1996, \$10,130,000 in bonds were outstanding. In September 1996, the Bond's Fiscal Agent determined that there were insufficient funds to make full payment of principal and interest due to significant delinquencies in payment of assessments. Under the provisions of the bond covenants, the City is required to commence judicial foreclosure proceedings upon delinquent assessments and to diligently pursue such foreclosure proceedings to completion. To date, the City has fulfilled its responsibility and will continue such action to ultimate resolution.

To structure a remedy for the default, the City formed the Long Beach Bond Financing Authority (LBBFA).

The LBBFA divided District properties into performing and delinquent pools. The assessment revenue from each pool was then used as collateral for new LBBFA bonds sold in July 1997. Series A bonds (Series A) and Series B bonds (Series B) represent the

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performing pool and the delinquent pool, respectively. A breakdown of these pools is as follows:

<u>Bond</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par Amount</u>
Series A	September 2, 2015	8.874% - 9.375%	\$ 5,900,000
Series B	September 2, 2015	11.300%	6,717,000

Series A was sold on the open market to private investors. The City purchased Series B. The proceeds from both series were used by LBBFA to purchase the original bonds as an investment. Assessment revenues from these investments are being used to repay the new debt. As foreclosure proceedings are completed and the properties become performing, the Series B Bonds will be converted to Series A Bonds and sold to private investors.

Such bonds described above do not constitute indebtedness of the City. The City is in no way obligated for their repayment and is only acting on behalf of the bond owners in collecting the assessments and special taxes from the property owners, forwarding the collections to the bond owners and initiating foreclosure proceedings, when necessary. Accordingly, these special assessment bonds payable have been excluded from the accompanying basic financial statements.

Conduit Debt

The bond issues described below do not constitute general obligations of either the City, its Housing Authority (Authority) or the City's Redevelopment Agency (Agency). There is no legal or ethical obligation on the part of the City to make debt service payments on the conduit debt issues. Likewise the City has no responsibility for bond administration, as the issues are completely administered by independent trustees. Accordingly, these programs and issues have been excluded from the accompanying basic financial statements.

Several multifamily mortgage bonds have been issued under the auspices of the City's Authority and the Agency. These issues provided for the permanent financing and construction of apartment complexes. The resulting bonds are not obligations of the City of Long Beach and only constitute special limited obligations of the Authority and the Agency and are payable solely from the revenue and assets of the homeowner obtaining funding under this program.

The City has also allowed its name to be used in the issuance of Industrial Development Refunding Bonds to benefit a local university. These bonds are secured by the university's pledge of resulting assets.

The City has sponsored home mortgage revenue bonds to provide funds for the purchase of home mortgages secured by newly constructed and existing single family homes located in the City. These bonds are secured by a pledge of all receivables from single family mortgage loans purchased with the bond proceeds plus amounts held in the bond debt service accounts by the trustee for the issue.

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Bonds have been issued for land acquisition located in the City for a homeowners association with the City's name. The bonds are payable from revenues of the condominium owners by way of lease payments and special assessments.

At September 30, 2002, Conduit Debt outstanding consisted of the following (in thousands):

<u>Description</u>	<u>Final Maturity</u>	<u>Amount Authorized</u>	<u>Outstanding at September 30, 2002</u>
Multi Family Mortgage Bonds			
Housing Authority	2028	\$ 12,500	\$ 12,500
Industrial Development			
Refunding Bonds	2023	11,620	10,740
Home Mortgage Revenue Bonds	2014	22,500	395
Marina Pacifica Land			
Acquisition Revenue Bonds	2030	<u>22,000</u>	<u>22,000</u>
Total Conduit Debt		<u>\$ 68,620</u>	<u>\$ 45,635</u>

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NOTE 10 – NOTES, CERTIFICATES OF PARTICIPATION, COMMERCIAL PAPER NOTES AND OTHER LONG-TERM OBLIGATIONS

At September 30, 2002, the City had several notes and installments payable, certificates of participation, commercial paper notes and other long-term obligations which consisted of the following (in thousands):

Description	Date Issued	Final Maturity	Range of Interest Rates	Originally Issued	Outstanding at September 30, 2002
<u>GOVERNMENTAL ACTIVITIES:</u>					
<u>NOTES PAYABLE:</u>					
General Fund:					
U.S. Department of the Navy	05/20/97	05/19/30	7.50%	\$ 11,075	\$ 10,853
Community Development Grants Fund:					
Section 108 Business Assistance	05/14/97	08/01/06	4.97%	750	300
Housing Development Fund:					
State of California	01/23/92	01/23/22	3%	1,016	1,016
California Housing Finance Agency	10/06/99	10/06/10	3%	2,000	1,980
California Housing Finance Agency	02/05/02	02/05/12	3%	600	598
Total Housing Development Fund				<u>3,616</u>	<u>3,594</u>
Redevelopment Capital Projects Fund:					
Los Angeles County	01/21/92	N/A	3.75%	1,100	1,100
L. and M. Andriole	10/20/87	10/06/02	5.83%	1,000	1,000
D. Mester	06/17/98	06/17/05	6.5%	104	104
Community Bank	07/31/01	09/01/06	7.5%	673	658
Total Redevelopment Capital Projects Fund				<u>2,877</u>	<u>2,862</u>
<u>ANNUITY OBLIGATION:</u>					
General Fund:					
Police and Fire Annuity	N/A	N/A	N/A	47,543	47,543
Governmental Activities Notes and Annuity Obligation				<u>\$ 65,861</u>	<u>\$ 65,152</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
<u>NOTES PAYABLE:</u>					
Water Fund:					
State Resources	06/30/88	06/30/08	4.0128%	\$ 2,000	\$ 749
Tidelands Fund:					
State of Calif DBAW/Seawalls	Var 1997	08/01/24	4.5%	1,285	1,098
State of Calif DBAW/Downtown Marina	08/01/83	08/01/11	4.5%	3,900	2,215
State of Calif DBAW/Downtown Marina	08/01/84	08/01/12	4.5%	3,500	2,377
State of Calif DBAW/Downtown Marina	08/01/85	08/01/12	4.5%	600	396
State of Calif DBAW/Shoreline Marina	08/01/82	08/01/10	4.5%	1,300	583
State of Calif DBAW/Los Cerritos Channel	08/01/81	08/01/08	4.5%	1,238	444
State of Calif DBAW/Basin 8	09/30/98	08/01/28	4.5%	241	241
State of Calif DBAW - Lighthouse	06/23/00	06/23/30	4.5%	700	669
Total Tidelands Fund				<u>12,764</u>	<u>8,023</u>
Harbor Fund:					
Commercial Paper Notes	03/01/94	N/A	1.20 - 1.30%	383,500	60,150
Nassir	09/21/94	09/12/08	6%	579	248
Locke	03/22/91	03/22/06	10%	203	54
Total Harbor Fund				<u>384,282</u>	<u>60,452</u>
<u>CERTIFICATES OF PARTICIPATION:</u>					
Airport Fund:					
1993 Airport Refundung	07/01/93	06/01/16	2.7-5.35%	16,815	12,750
Tidelands Fund:					
Parking Authority/Rainbow Harbor Area	05/01/97	05/01/17	4.25-5.75%	5,855	5,035
Business-type Activities Notes and Certificates of Participation				<u>\$ 421,716</u>	<u>\$ 87,009</u>

N/A - Maturity date has not been established for these notes and annuities.

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Towne Center Project

In May 1997, the City (General Fund) entered into loan agreements (Navy Notes 1997) with the Department of the Navy to purchase the former Navy hospital property for the Towne Center area improvements. In fiscal year 2001 the Navy Note 1997 Series A in the amount of \$7,808,000 at 7.5%, Series B of \$2,998,000 at 9% plus accrued interest of \$269,000 for a total of \$11,075,000 were refinanced in accordance with the loan agreements to a 7.5% note. The note is due in May 2030, payable at \$938,000, including principal and interest, per year. The balance outstanding at September 30, 2002 is \$10,853,000.

HUD Section 108 Business Assistance and Revitalization Loans

In January 1995, the City was granted authorization to use a Section 108 loan guarantee against its Community Development Block Grant. The authorization allows the City to borrow up to \$5,000,000 for its Commercial and Industrial Revolving Loan Fund Program. The amount used and outstanding at September 30, 2002 is \$300,000. The interest is variable and principal is paid at \$75,000 per year through 2006 by the Community Development Grants Special Revenue Fund.

Housing Development Company Loan

The Housing Development Company loan in the amount of \$1,016,000 at September 30, 2002 is payable to the State of California in January 2022. The Housing Development Company also has authorization to borrow \$2,600,000 from the California Housing Finance Agency at a interest rate of 3%. The funds will be used for a revolving loan program that will allow for the acquisition and rehabilitation of multiple residential buildings located in specific neighborhoods designated for revitalization. As of September 30, 2002 \$1,980,000 is payable through 2010 and \$598,000 is payable through 2012.

Tax Increment Obligation

The Redevelopment Agency has an agreement to pay Los Angeles County 49.44% of tax increment generated by the Los Altos and Central Long Beach Project Areas, payable commencing in 2020 at a simple interest rate of 3.75%. The tax increment due to the County at September 30, 2002 totaled \$1,100,000.

Redeveloper Obligation

The Redevelopment Agency executed a promissory note payable in July, 1987 in payment of real property purchased in the Downtown Project Area. The original interest rate of 10% was renegotiated to a variable interest rate which is payable monthly. Interest rates paid in fiscal year 2002 averaged 5.83%. The principal balance of \$1,000,000 is due on October 6, 2002.

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West Long Beach Industrial Project Obligations

In June 1998, the Redevelopment Agency executed a promissory note payable for \$104,000 for real property purchased in the West Long Beach Industrial Project Area. Full payment for the 6.5% note is due on June 17, 2005, or when tax allocation bonds are issued for the West Long Beach Industrial Project, whichever occurs first. At September 30, 2002, the entire amount of \$104,000 was still outstanding.

Central Long Beach Project Obligation

In July 2002, the Redevelopment Agency executed a promissory note payable for \$673,000 for real property purchased for the Central Long Beach Project. The monthly payment of \$5,500 on the 7.5% note is based on a twenty-year amortization. A payment of approximately \$595,000 is due at the maturity date of September 2006. The balance outstanding at September 30, 2002 is \$658,000.

Debt Service requirements for governmental activities notes payable and the funds from which payments will be made are as follows (in thousands):

Year-end	Principal Payments By Fund				Annual Debt Service Requirements		
	Governmental Activities				Principal	Interest *	Total
	General Fund	Community Development Grants Fund	Housing Development Fund	Redevelopment Capital Projects Fund			
2003	\$ 124	\$ 75	\$ -	\$ 1,017	\$ 1,216	\$ 954	\$ 2,170
2004	133	75	-	20	228	805	1,033
2005	143	75	-	125	343	795	1,138
2006	154	75	-	600	829	784	1,613
2007	165	-	-	-	165	772	937
2008 - 2012	1,032	-	2,578	-	3,610	3,657	7,267
2013 - 2017	1,482	-	-	-	1,482	3,207	4,689
2018 - 2022	2,127	-	-	-	2,127	2,562	4,689
2023 - 2027	3,054	-	1,016	-	4,070	1,635	5,705
2028 - 2032	2,439	-	-	-	2,439	374	2,813
Indeterminant	-	-	-	1,100	1,100	-	1,100
Totals	<u>\$ 10,853</u>	<u>\$ 300</u>	<u>\$ 3,594</u>	<u>\$ 2,862</u>	<u>\$ 17,609</u>	<u>\$ 15,545</u>	<u>\$ 33,154</u>

No payment dates have been established for the Redevelopment Capital Projects Fund notes payable for \$1,100,000; therefore, no interest has been listed in the above table.

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Business-Type Activities

Future debt service payments under various notes payable for the City's business-type activities are as follows (in thousands):

Year-end	Principal Payments By Fund			Annual Debt Service Requirements		
	Business-Type Activities			Principal	Interest	Total
	Water	Tidelands	Harbor			
2003	\$ 122	\$ 606	\$ 55	\$ 783	\$ 544	\$ 1,327
2004	127	634	54	815	371	1,186
2005	132	663	54	849	336	1,185
2006	138	693	55	886	296	1,182
2007	143	724	42	909	255	1,164
2008 - 2012	87	3,282	42	3,411	719	4,130
2013 - 2017	-	405	-	405	272	677
2018 - 2022	-	505	-	505	177	682
2023 - 2027	-	379	-	379	67	446
2028 - 2032	-	132	-	132	11	143
Indeterminant	-	-	60,150	60,150	-	60,150
Totals	<u>\$ 749</u>	<u>\$ 8,023</u>	<u>\$ 60,452</u>	<u>\$ 69,224</u>	<u>\$ 3,048</u>	<u>\$ 72,272</u>

The City of Long Beach, Tidelands Fund, Rainbow Harbor Area segment, entered into a loan agreement on July 10, 1998 for the construction of a lighthouse with a harbormaster's office and restrooms with an authorized amount of \$700,000. Construction of the lighthouse and loan draws began in fiscal year 2000 for a total of \$700,000. The amount outstanding at September 30, 2002 is \$669,000. Annual payments in the amount of \$43,000 began in August, 2002 at an interest rate of 4.5%.

The Harbor Department authorized the issuance of up to \$383,500,000 in Commercial Paper notes. In 1994 the Harbor Department issued \$148,000,000 of Series A Commercial Paper Notes to pay for acquisition costs of property, facilities and oil rights in the North Harbor District. The Harbor Department intends to extend the notes for a period greater than a year; therefore, the outstanding amount has been classified under long-term obligations. During fiscal year 1997 the Harbor Department redeemed \$12,850,000 of notes and \$75,000,000 in redemption took place during fiscal year 2002. The amount outstanding at September 30, 2002 is \$60,150,000 with interest rates ranging from 1.20% to 1.30%. The Harbor Department also has other notes outstanding for \$248,000 and \$54,000 at September 30, 2002.

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Certificates of Participation

The remaining debt service requirements for Certificates of Participation payable from the Airport and the Tidelands Fund (Rainbow Harbor Area Segment) are as follows (in thousands):

Year-end	Principal Payments By Fund		Annual Debt Service Requirements		
	Airport	Tidelands	Principal	Interest	Total
2003	\$ 650	\$ 230	\$ 880	\$ 919	\$ 1,799
2004	680	240	920	876	1,796
2005	710	250	960	831	1,791
2006	750	265	1,015	782	1,797
2007	785	280	1,065	731	1,796
2008 - 2012	4,590	1,635	6,225	2,751	8,976
2013 - 2017	4,585	2,135	6,720	960	7,680
Totals	<u>\$ 12,750</u>	<u>\$ 5,035</u>	<u>\$ 17,785</u>	<u>\$ 7,850</u>	<u>\$ 25,635</u>

Police and Fire Annuity Obligation Program

The City administers a Police and Fire Annuity Program (Program) under the City Charter Section 187, prior to its termination in 1945. The terminated Program covers a diminishing number of public safety retirees or their surviving spouses. At September 30, 2002, there were 144 participants in this program.

Total expenditures to this closed group of individuals amounted to \$6,437,000 for the fiscal year ended September 30, 2002. The City's accrued Program liability was \$47,543,000 at September 30, 2002.

Program benefits are funded when required to be paid. Accordingly, there are no assets of the Program. Because of the very unique nature of this program, and the fact that the program has been closed for over five decades, an accrued program liability was historically recorded in the City's General Long-Term Obligations Account Group.

The current year change in the accrued liability is comprised of the following (in thousands):

Accrued Program Liability at October 1, 2001	\$ 51,222
Increase (Decrease) During the Year Attributable to:	
Benefits Paid	(6,437)
Estimated Change in Annualized Value of Benefits	2,758
Accrued Program Liability at September 30, 2002	<u>\$ 47,543</u>

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The number of Program participants diminishes each year. Since 1993, the number of program participants has been reduced by 117 individuals. The following table presents additional information for Police and Fire Annuity Benefit Programs (in thousands) (1996 benefits paid is for fifteen months, reflecting the City's change in its fiscal year end):

<u>Year-end</u>	<u>Number of Participants</u>	<u>Annuity Benefits Paid</u>	<u>Accrued Program Liability</u>
1993	261	\$8,435	\$79,862
1994	252	8,134	77,413
1995	239	7,804	68,369
1996	218	9,367	64,073
1997	205	7,783	61,207
1998	191	7,162	56,596
1999	181	7,093	57,500
2000	167	6,913	53,668
2001	157	6,641	51,222
2002	144	6,437	47,543

NOTE 11 – LEASING ARRANGEMENTS

Hyatt Long Beach Corporation Lease

In 1981, the City entered into a 50-year non-cancelable ground lease with a renewable term of 25 years, with a developer on certain Tideland properties held in trust by the City. The developer constructed a hotel and adjacent public facilities including a parking structure. In January 1995, the City renegotiated the agreements with the developer. Under the terms of the revised lease, the City will receive annual minimum ground lease rent of \$242,000, increased 10% every 5 years, plus 2.5% of the hotel's gross operating profit. Payment of these amounts is due 90 days after the close of the calendar year. The City accounts for the ground lease as an operating lease in the Tidelands Fund.

Concurrently, the developer leased the parking structure and public facilities to the City, a portion of which was sublet back to the developer. Under the terms of the lease, the City is obligated to pay the developer approximately \$2,855,000 per year through 2008, with incidental costs to be paid by the City thereafter. Subsequent to 2020, the City is not required to make any further lease payments. Under the terms of the sublease, the developer is obligated to pay the City approximately \$477,000 annually through 2008, with their proportionate share of the incidental costs thereafter.

The City has accounted for the lease and the sublease of the parking structure and public facilities as a capital lease payable and long-term lease receivable, respectively, in the Tidelands Fund using an interest rate of approximately 10%. At September 30, 2002, the outstanding capital lease payable and long-term lease receivable are \$12,805,000 and \$2,137,000, respectively.

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Future debt service payments under this business-type activity capital lease payable and future minimum rentals to be received under this sublease are as follows (in thousands):

Fiscal Year-end	Debt Service Payments			Minimum Rentals
	Principal	Interest	Total	
2003	\$ 1,582	\$ 1,273	\$ 2,855	\$ 477
2004	1,739	1,116	2,855	477
2005	1,912	943	2,855	477
2006	2,102	753	2,855	477
2007	2,312	544	2,856	477
2008 - 2012	3,158	411	3,569	591
Totals	<u>\$ 12,805</u>	<u>\$ 5,040</u>	<u>\$ 17,845</u>	<u>\$ 2,976</u>

Other Leases:

The City has various other capital leasing arrangements as follows (in thousands):

<u>Description</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Range of Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding at September 30, 2002</u>
GOVERNMENTAL ACTIVITIES					
General Fund:					
Emergency Communications Center (a)	06/21/02	06/21/05	3.01%	\$ 4,000	\$ 4,000
Emergency Communications Center (a)	06/21/02	06/21/07	3.62%	4,000	4,000
Emergency Communications Center (a)	06/21/02	06/21/09	3.94%	9,125	9,125
Park Sports Lighting (b)	04/12/01	09/01/05	5.25%	98	77
City Light and Power (c)	05/01/96	05/01/21	8.73%	18,500	17,660
Total General Fund				<u>35,723</u>	<u>34,862</u>
Health Special Revenue Fund:					
Health Facility (d)	06/30/89	01/01/19	Variable	<u>4,866</u>	<u>3,916</u>
Internal Service Funds:					
Civic Center Fund:					
Sisco Lease (e)	07/17/96	01/17/07	6.07%	<u>6,278</u>	<u>3,096</u>
General Services Fund:					
Personal Computers (f)	12/24/02	12/25/04	2.90%	2,523	1,913
Personal Computers (f)	12/27/00	12/27/03	5.03%	2,230	970
Financial Accounting System (g)	09/06/96	09/06/03	5.88%	4,000	622
IBM Processor (h)	09/01/00	08/01/05	3.8-7.45%	654	300
Total General Services Fund				<u>9,407</u>	<u>3,805</u>
Total Governmental Activities Leases				<u>\$ 56,274</u>	<u>\$ 45,679</u>

- (a) The City entered into capital lease agreements to purchase equipment for the Emergency Communications and Operations Center. The annual payment, including principal and interest, is \$3,840,000 which is paid annually through fiscal year 2009.

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- (b) The City entered into a capital lease agreement to install lighting systems in certain parks. The lease is payable monthly in the amount of \$1,900 at 5.25% interest through September 2005.
- (c) The City entered into a capital lease agreement to improve and replace the street lighting infrastructure in the City. The lease is payable monthly; the amount varies by year, with the initial year at \$57,000 per month and the maximum amount for the sixth through twenty-fifth years at \$163,000 per month.
- (d) In June 1989, the City entered into a capital lease with the California Health Facilities Financing Authority to finance the Health Department building. Interest is payable monthly at variable interest rates plus State expenses. Principal is paid annually in November.
- (e) The City entered into a capital lease to make energy conservation improvements to the Civic Center building. The monthly installments vary through January 2007 and do not exceed \$78,000 per month. The savings in energy costs resulting from the improvements are expected to be sufficient to cover the lease payments.
- (f) The City entered into capital lease agreements to finance the leasing of personal computers. The leases are payable monthly through 2004 and the aggregate monthly payments are \$138,000.
- (g) The City entered into a capital lease to acquire new financial systems which is payable in monthly installments of \$58,000.
- (h) The City entered into a capital lease to finance the purchase of IBM processors and related equipment. The lease is payable monthly in installments of \$10,000.

Aggregate future debt service payments under the City's governmental-activities various capital leases are as follows (in thousands):

Year-end	Principal Payments By Fund				Annual Debt Service Requirements		
	General	Health	Civic Center	General Services	Principal	Interest	Total
2003	\$ 3,672	\$ 120	\$ 622	\$ 2,328	\$ 6,742	\$ 2,117	\$ 8,859
2004	3,804	130	691	1,164	5,789	1,933	7,722
2005	3,961	140	763	313	5,177	1,785	6,962
2006	2,720	150	764	-	3,634	1,657	5,291
2007	2,852	160	256	-	3,268	1,536	4,804
2008 - 2012	6,999	1,015	-	-	8,014	6,300	14,314
2013 - 2017	6,601	1,455	-	-	8,056	3,539	11,595
2018 - 2022	4,253	746	-	-	4,999	434	5,433
Totals	<u>\$ 34,862</u>	<u>\$ 3,916</u>	<u>\$ 3,096</u>	<u>\$ 3,805</u>	<u>\$ 45,679</u>	<u>\$ 19,301</u>	<u>\$ 64,980</u>

CITY OF LONG BEACH
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Future Rental Income Under Operating Leases

Aggregate minimum future rental income under non-cancelable operating leases having an initial term in excess of one year is as follows by fund (in thousands):

<u>Year-end</u>	
2003	\$ 190,403
2004	183,130
2005	181,090
2006	161,551
2007	153,979
2008-2012	650,946
2013-2017	550,695
2018-2022	504,891
2023-2027	337,403
2028-2032	26,534
2033-2037	15,848
2038-2042	11,542
2043-2047	9,946
2048-2052	4,461
Total	<u>\$ 2,982,419</u>

NOTE 12 – RETIREMENT PROGRAMS

Plan Description

The City contracts with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, including annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30 which differs from the City's September 30 fiscal year end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan. Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Vested first and second tier non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the average salary

CITY OF LONG BEACH
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during the three consecutive highest paid years of employment for each year of credited service for second tier. The non-safety plan was amended to 2.7% at age 55 effective August 24, 2002.

The City amended its safety and miscellaneous retirement plans to create Second Tiers in fiscal year 1990 and a Third Tier for miscellaneous employees in fiscal year 1996. During fiscal year 2002 the Third Tier was eliminated and plan participants were absorbed into Tier Two. Retirees under the First Tier are eligible to receive a maximum annual 5% cost-of-living increase in their retirement benefit, while those under the Second Tier are eligible to receive a maximum annual 2% cost-of-living increase.

Funding Policy

In November 1998, the City was informed by CalPERS that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997. Accordingly, the City's employer contribution rates were reduced by CalPERS to zero for all plans effective November 13, 1998. Participants are required to contribute 7% of their earnings for all miscellaneous and 9% for all police, fire and lifeguard employees. The City continued to make these employee contributions as required by CalPERS law through July 2, 1999 at which time it was informed by CalPERS that no further contributions were required. Based on the latest actuarial valuations as of June 30, 2001, the City continues to be overfunded and is not currently required to pay CalPERS any employee or employer contributions for any of its plans. The funded normal cost rates are as follows:

Contribution Rates for Fiscal Year 2002

Employees Covered	Normal Cost	Amortization of Unfunded Liability	Total Employer Rate	Employee Rate *
Safety	19.650%	(19.650%)	-	9%
Miscellaneous	9.551%	(9.551%)	-	8% **

* At this time, Employee Contributions are being paid from excess assets in the City's Safety and Miscellaneous CalPERS plans.

** Miscellaneous employee rate increased to 8% from 7 % effective August 24, 2002.

Contribution Rates for Fiscal Year 2001

Employees Covered	Normal Cost	Amortization of Unfunded Liability	Total Employer Rate	Employee Rate *
Safety	20.097%	(20.097%)	-	9%
Miscellaneous	7.028%	(7.028%)	-	7%

* At this time, Employee Contributions are being paid from excess assets in the City's Safety and Miscellaneous CalPERS plans.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. Due to recent CalPERS investment losses, the City is expecting that contribution payments to CalPERS will be required beginning October 1, 2004 for both Safety and Miscellaneous Plans.

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NOTES TO BASIC FINANCIAL STATEMENTS
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Annual Pension Cost

Since the City retirement plans are overfunded, the annual pension cost for CalPERS is effectively zero. A summary of principal assumptions and methods used to determine the annual required contribution for miscellaneous and safety employees is shown below.

	Assumptions
Valuation Date	June 30, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 Years as of the Valuation Date for Safety Employees. 35 Years for Miscellaneous Employees
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	4.27% to 11.59% depending on age, service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of cumulative unamortized gains and losses each year. In the event that a plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the excess assets to payroll. The information is presented based on the CalPERS fiscal year from July 1 through June 30.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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Three-Year Trend Information for CalPERS – Net Pension Obligation
(Unaudited)
(In thousands)

<u>June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1999	\$23,626	100%	--
2000	--	100%	--
2001	--	100%	--

The City's contribution rate since July 1999 to date is zero, therefore there is no annual pension cost as of June 30, 2001.

Public Agency Retirement System – Defined Benefit Plan

In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (The Plans). Both Plans are defined benefit, single employer retirement plans. The Plans, which took effect on January 1, 1995, are administered for the City through a third party administrator. The Plans provide for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Special Status Contractors Plan Benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant's highest 36 consecutive months' salary for each year of service. The plan requires participant contributions of 6.2% of earnings. All eligible participants enter the plan upon hire, and all benefits are vested after five years of service. However, plan participants immediately vest in their contributions. It is assumed that upon termination, the participant will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below).

The Seasonal and Temporary Employees Plan Benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant's highest 36 consecutive month's salary for each year of service. The plan requires employee contributions of 3.0% of earnings. All employees enter the plan upon hire, and all benefits are immediately vested. It is assumed that upon termination, the employee will choose to receive an actuarially equivalent lump sum.

The City's funding policy is to contribute the contribution determined by the Plan's actuary as of September 30, 2002. The following information describes the calculation methodology:

- The Plans' annual pension cost (APC) for the fiscal year ended September 30, 2002 is based on the period from July 1, 2001 to June 30, 2002. The APC for this period was \$5,001 for Special Status Contractors and \$69,496 for Seasonal and Temporary Employees, the same amounts contributed for this period.
- The actuarial liabilities and assets are valued as of June 30, 2002.

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- The actuarial funding method used is the projected-unit-credit-method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining both Plans' actuarial accrued liability, the projected benefit of each participant must be allocated between past year and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and plan assets. This difference is amortized as a level percent of expected covered payroll to determine the unfunded actuarial liability rate.

The following is a summary of the actuarial assumptions for Special Status Contractors Plan:

Interest Rate:	7.5%
Mortality:	1983 Group Annuity Mortality Table
Turnover:	T-7 Table from the Actuary's Pension Handbook in excess of mortality
Salary Scale:	5.0%
Retirement Age:	Age 65 or attained age, if older
Form of Benefit:	Participants are assumed to receive a lump sum upon termination

The actuarial assumptions for the Seasonal and Temporary Employees Plan are the same except for the turnover assumptions, which are:

<u>Years of Service</u>	<u>Rate</u>
0	50%
1	40%
2	30%
3	20%
4	10%
5+	T-7 Table from the Actuary's Pension Handbook in excess of mortality

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

The net pension obligation information below is based on periods from July 1 through June 30.

<u>Fiscal Year</u>	<u>Annual Pension Costs</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>	<u>Net Pension Obligation</u>
1995 (June 30)	\$ 42,215	\$ 42,215	100%	\$ -
1996	118,347	118,347	100%	-
1997	121,211	121,211	100%	-
1998	116,510	116,510	100%	-
1999	133,722	133,722	100%	-
2000	115,589	115,589	100%	-
2001	31,384	31,384	100%	-
2002	5,001	5,001	100%	-
Seasonal and Temporary				
1996	\$ 24,945	\$ 24,945	100%	-
1997	60,699	60,699	100%	-
1998	53,504	53,504	100%	-
1999	63,131	63,131	100%	-
2000	73,335	73,335	100%	-
2001	71,365	71,365	100%	-
2002	69,496	69,496	100%	-

NOTE 13 – POST RETIREMENT HEALTH CARE BENEFITS

Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental and long term care insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all premiums himself. The City provided a one-time early retirement incentive of a maximum of \$25,000 for employees who retired during calendar year 1996. The amount of the incentive was based on age, and was credited to accumulated sick leave to be used towards health insurance costs during retirement.

At September 30, 2002, there were 708 participants in the City's Retired Employees Health Insurance Program, and the non-interest bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$18,196,000. Total premiums paid by the City under the Retired Employees Health Insurance Program during the twelve months ended September 30, 2002, were \$3,461,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

The City has recorded a liability in the Employee Benefits Internal Service Fund of \$54,395,000, based on an actuarial study of current and future retiree accumulated sick leave as of September 30, 2001 and updated as of September 30, 2002. Such estimate takes into account an estimate of future usage, additional leave accumulation and wage

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increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.75%; wage increases of 4% per year, and insurance premium increases of 4.5%. The current portion of such obligation of \$4,327,000, recorded in current accrued wages and benefits, has been fully funded; the long-term portion of the liability of \$50,068,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

NOTE 14 – SELF – INSURANCE PROGRAMS

The City has adopted separate self-insurance programs for workers' compensation and general liability claims. At September 30, 2002, the City accrued nondiscounted estimates of \$85,841,000 for workers' compensation and general liability claims. This represents estimates of amounts to be paid for actual and incurred but not reported claims based upon past experience, modified for current trends and development. The City does not have any outstanding annuities. The City has recorded a current liability of \$20,170,000 and a long-term liability of \$65,671,000 in the Insurance Internal Service Fund.

While the ultimate amount of losses incurred through September 30, 2002 is dependent on future developments, based upon information from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual adequately represents such losses.

A summary of the City's claims activity for the fiscal year ended September 30, 2002 and 2001 is as follows (in thousands):

	Worker's Compensation Claims	General Liability Claims	Total
Balance at October 1, 2000	\$ 43,023	\$ 10,300	\$ 53,323
Additions	15,182	13,511	28,693
Payments	(11,727)	(1,111)	(12,838)
Balance at September 30, 2001	\$ 46,478	\$ 22,700	\$ 69,178
Additions	27,125	5,413	32,538
Payments	(13,862)	(2,013)	(15,875)
Balance at September 30, 2002	<u>\$ 59,741</u>	<u>\$ 26,100</u>	<u>\$ 85,841</u>

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Component Unit

Under its insurance program, the LBT retains the risk for each occurrence of worker's compensation and public liability and property damage claimed up to \$1,000,000. Claims in excess of \$1,000,000 for either worker's compensation or public liability and property damage are covered under policies in force with an independent insurer. The amount of settlements for both worker's compensation and public liability and property damage did not exceed the insurance coverage limits in fiscal year 2002.

The LBT's policy is to estimate and recognize losses on the accrual basis, including estimates of claims incurred but not reported, based on the report of the LBT's independent claims manager, and to maintain designated cash and investments to fund the estimated liabilities.

The changes in estimated liabilities for reported claims are as follows for the LBT (in thousands):

	Public Liability and Property Damage	Worker's Compensation	Total
Fiscal year 2001 beginning balance	\$ 1,258	\$ 1,485	\$ 2,743
Reserves:			
New claims	766	1,290	2,056
Adjustments to existing claims	216	2,153	2,369
Payouts	(1,032)	(2,985)	(4,017)
Fiscal year 2001 ending balance	\$ 1,208	\$ 1,943	\$ 3,151
Reserves:			
New claims	789	501	1,290
Adjustments to existing claims	300	2,977	3,277
Payouts	(981)	(2,795)	(3,776)
Fiscal year 2002 ending balance	<u>\$ 1,316</u>	<u>\$ 2,626</u>	<u>\$ 3,942</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 15 – GOVERNMENTAL ACTIVITIES FUND BALANCE

The composition of the reserved portion of the governmental activities fund balance at September 30, 2002 is as follows (in thousands):

	General Fund	Major Governmental Funds Other than General Fund	Nonmajor Governmental Funds
Reserved for:			
Other Noncurrent Receivables (a)	\$ 95,259	\$ 30,869	\$ -
Asset Seizure Money (b)	5,396	-	-
Encumbrances	1,858	25,911	1,899
Future Advances to Other Funds - restricted by City Charter	1,486	-	-
Transportation Projects (c)	-	-	19,193
Housing Development - restricted by State law	-	77	-
Future Projects	11,177	63,614	-
Land Held For Resale	-	42,738	-
Estimated Oil Field Abandonment Costs	-	-	1,916
Debt Service Covenants	7,928	36,320	150
Totals	<u>\$ 123,104</u>	<u>\$ 199,529</u>	<u>\$ 23,158</u>

- (a) The reserve for noncurrent receivables represents long-term loan receivables and long-term advances to other funds not available to finance current expenditures because receipt is not anticipated in the near future since there is no specified repayment dates for these advances. The General Fund reserve for noncurrent receivables funds consists of \$90,370,000 due from the Redevelopment Capital Projects Fund, based on a cooperative agreement in which the City agreed to advance funds to use on redevelopment projects. Debt service payments to the General Fund are expected as future property tax increment funds become available. At this time there is no repayment schedule. In addition, \$2,883,000 is due from the Airport Enterprise Fund for City services and \$2,000,000 is due from the Health Fund for advances to cover cash flow. Repayment from the Airport is dependant on Airport revenues from flights. There is no repayment date for the Health Fund advance.

Other major governmental fund advances to other funds consist of \$21,682,000 due to the Housing Development Special Revenue Fund from the Redevelopment Capital Projects Fund, \$4,467,000 due to the Community Development Grants Fund from the Housing Development Special Revenue Fund and \$1,877,000 due to the General Capital Projects Fund from the Redevelopment Capital Projects Fund. Repayments depend on available future tax revenue increments.

CITY OF LONG BEACH
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The balance of \$2,843,000 mainly represents long-term notes receivable for the Redevelopment Agency and Housing Development Special Revenue Fund, which do not provide current available resources.

- (b) The reserve for asset seizure funds accounts for monies received from the sale of assets seized under probable cause in a criminal investigation. The resulting funds must be used to enhance criminal investigations, detection and prosecution, and shall not supplant the existing Police Department budget.
- (c) The reserve for transportation projects represents the fund balance of the Transportation Fund Special Revenue Fund which is restricted for use to specified transportation projects requiring advance approval of the Los Angeles County Transportation Commission.

Fund Deficits

The accumulated deficits in the Insurance and Employee Benefits Internal Service Funds are \$44,225,000 and \$20,090,000, respectively. City Management believes the cash position is sufficient to cover the current costs related to retired health insurance, worker's compensation, general liability claims and current operating costs in the Insurance and Employee Benefits Internal Service Funds. City Management intends to adjust billings to City departments as needed to ensure that adequate cash positions are maintained.

At September 30, 2002, the City's Redevelopment Agency had a deficit fund balance of \$25,830,000. Such deficit was created by funding redevelopment projects through the issuance of long-term indebtedness to outside entities and the City of Long Beach. The Redevelopment Agency's management believes that future property tax increments and property sales to developers will be sufficient to ultimately eliminate such deficit in future years. The advances from the City have no specified repayment date.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 16 – RECONCILIATION OF ACTUAL REVENUES AND EXPENDITURES TO THE NON-GAAP BUDGETARY BASIS

The following reconciles actual revenues and expenditures for governmental funds to the non-GAAP budgetary basis by fund type for the fiscal year ended September 30, 2002 (in thousands):

	General Fund	Major Governmental Funds Other than General Fund	Nonmajor Governmental Funds	Total
Beginning Fund Balance - Budgetary Basis	\$ 170,270	\$ (39,788)	\$ 35,932	\$ 166,414
Actual (GAAP-Basis) Revenues	312,572	94,918	116,471	523,961
Basis Adjustments:				
Proceeds from Sale of Land Held for Resale	-	2,374	-	2,374
Advances to/from Other Funds	3,334	15	-	3,349
Revenues on the Budgetary Basis	315,906	97,307	116,471	529,684
Actual (GAAP-Basis) Expenditures	353,846	114,235	113,493	581,574
Basis Adjustments:				
Encumbrances Outstanding at September 30, 2002	1,858	25,912	1,899	29,669
Current Effect of Capitalization of Land Held for Resale	-	1,876	-	1,876
Advances to/from Other Funds	-	6,564	-	6,564
Expenditures - Budgetary Basis	355,704	148,587	115,392	619,683
Excess of Revenues Over (Under) Expenditures - Budgetary Basis	(39,798)	(51,280)	1,079	(89,999)
Other Financing Sources (Uses) (GAAP-Basis)	37,670	97,140	(1,468)	133,342
Basis Adjustments:				
Reconveyance of Land	-	(426)	-	(426)
Advances to/from Other Funds	(2,602)	(1,597)	-	(4,199)
Other Financing Sources - Budgetary Basis	35,068	95,117	(1,468)	128,717
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budgetary Basis	(4,730)	43,837	(389)	38,718
Ending Fund Balance - Budgetary Basis	\$ 165,540	\$ 4,049	\$ 35,543	\$ 205,132

The City's budget in any given fiscal year is incremented by the amount of encumbrances outstanding at the end of the prior fiscal year in accordance with City Council adopted ordinance.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 17 – SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES FUNDS

The City has issued various revenue bonds to finance the purchase of the Aquarium of the Pacific, the Marina facilities and the Rainbow Harbor Area infrastructure improvements. Each of the revenue bonds is accounted for in the City's Tidelands Fund. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

The Aquarium of the Pacific 2001 revenue bonds, issued in the amount of \$129,520,000, is accounted for in the Tideland Operating segment. The Tideland Operating segment is used to account for the business-type operations of the Long Beach Convention and Entertainment Center, as well as beach maintenance and beach/water safety programs directly related to the tidelands area, including lifeguards and patrol boats. Beginning with the 1997 fiscal year, leases for areas adjacent to the Queen Mary were also included in the Tideland Operating segment. The Tideland Operating segment had purchase of goods and services and construction project commitments of \$1,476,000.

The 1994 Marina Subordinate Revenue bond, issued in the amount of \$1,310,000 and the 1995 Marina Refunding Revenue bond issued in the amount of \$31,725,000 are accounted for in the Marina segment. The Marina segment is used to account for the enterprise operations of the City's Alamitos Bay and Downtown Marinas. The Marina segment had commitments of \$1,140,000 for the purchase of goods, services and construction.

The 1999 Rainbow Harbor Financing Project Revenue Bonds, issued in the amount of \$47,970,000, is accounted for in the Rainbow Harbor Area segment. The Rainbow Harbor Area segment is used to account for the Rainbow Harbor Area administration, the Rainbow Harbor financing and the Aquarium parking structure financing operations. The Rainbow Harbor Area segment had commitments of \$104,000 for the purchase of goods, services and construction.

The Parking Authority issued \$5,855,000 in Certificates of Participation to partially fund the Aquarium of the Pacific Parking Structure. Money from the Rainbow Harbor Area segment is pledged for the debt service payment.

CITY OF LONG BEACH
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Summary financial information for each segment is presented below (in thousands) as of September 30, 2002:

City of Long Beach Business-Type Activities Tidelands Fund Segments Statement of Net Assets September 30, 2002 (In Thousands)			
	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
ASSETS			
Current Assets:			
Pooled Cash and Cash Equivalents	\$ 6,902	\$ 2,430	\$ 2,567
Receivables:			
Interest Receivable	-	-	105
Accounts Receivable	1,284	118	158
Due from Other Governments	840	491	-
Due from Other Funds	8,677	-	-
Capital Leases Receivable-Current	264	-	-
Allowance for Receivables	(16)	(70)	-
Inventory	-	76	-
Total Current Assets	<u>17,951</u>	<u>3,045</u>	<u>2,830</u>
Restricted Assets:			
Pooled Cash and Cash Equivalents	2,607	4,893	1,301
Non-Pooled Cash and Cash Equivalents	15,056	-	36,538
Interest Receivable	242	-	-
Total Restricted Assets	<u>17,905</u>	<u>4,893</u>	<u>37,839</u>
Noncurrent Assets:			
Noncurrent Receivables:			
Capital Lease Receivable	1,873	-	-
Capital Assets:			
Land and Other Capital Assets not being Depreciated	32,931	2,744	11,302
Capital Assets			
net of Accumulated Depreciation	227,208	28,966	54,912
Deferred Charges-Long-Term	1,968	-	-
Total Noncurrent Assets	<u>263,980</u>	<u>31,710</u>	<u>66,214</u>
Total Assets	<u>299,836</u>	<u>39,648</u>	<u>106,883</u>

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NOTES TO BASIC FINANCIAL STATEMENTS
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City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Net Assets
September 30, 2002
(In Thousands)
(continued)

	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
LIABILITIES			
Current Liabilities Payable from Current Assets:			
Accounts Payable	\$ 141	\$ 663	\$ 826
Accrued Wages	103	96	18
Accrued Interest Payable	8	254	-
Due to Other Funds	607	27	5
Deferred Revenues	117	1,926	25
Collections Held in Trust	24	15	32
Obligations Under Capital Leases-Current	1,582	-	-
Bonds Payable Due Within One Year	-	1,437	80
Other Long-Term Obligations-Current	30	564	242
Total Current Liabilities	<u>2,612</u>	<u>4,982</u>	<u>1,228</u>
Current Liabilities Payable from Restricted Assets:			
Accrued Interest Payable	2,732	-	1,135
Bonds Payable Due Within One Year	-	1,348	-
Total Liabilities Payable from Restricted Assets	<u>2,732</u>	<u>1,348</u>	<u>1,135</u>
Noncurrent Liabilities:			
Advances from Other Funds	9,513	-	-
Obligations Under Capital Leases-Current	11,223	-	-
Other Long-Term Obligations	1,068	5,692	5,462
Unamortized Discount/Deferred cost	-	-	(266)
Bonds Payable	129,520	15,770	47,825
Unamortized Discount/Deferred cost	<u>(15,908)</u>	<u>(1,036)</u>	<u>(2,534)</u>
Total Noncurrent Liabilities	<u>135,416</u>	<u>20,426</u>	<u>50,487</u>
Total Liabilities	<u>140,760</u>	<u>26,756</u>	<u>52,850</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	132,624	7,935	15,405
Restricted for:			
Debt Service	10,788	3,545	4,562
Capital Projects	-	-	32,142
Aquarium Operations and Maintenance Reserve	4,385	-	-
Unrestricted	<u>11,279</u>	<u>1,412</u>	<u>1,924</u>
Total Net Assets	<u>\$ 159,076</u>	<u>\$ 12,892</u>	<u>\$ 54,033</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended September 30, 2002
(In Thousands)

	Tideland Operating	Marina	Rainbow Harbor Area
Operating Revenues:			
Licenses and Permits	\$ 8	\$ -	\$ -
Fines and Forfeitures	139	-	-
Fees, Concessions and Rentals	4,754	15,498	2,486
From Other Agencies	22,065	-	-
Charges for Services	794	66	-
Other	23	-	-
Total Revenues	<u>27,783</u>	<u>15,564</u>	<u>2,486</u>
Operating Expenses:			
Personal Services	6,877	6,516	930
Maintenance and Other Operations	11,521	4,296	2,361
Payments to Other Entities	19,225	-	508
Depreciation	9,910	1,719	2,206
Total Operating Expenses	<u>47,533</u>	<u>12,531</u>	<u>6,005</u>
Operating Income (Loss)	<u>(19,750)</u>	<u>3,033</u>	<u>(3,519)</u>
Non-Operating Income (Expense):			
Interest Income	5,715	294	350
Interest Expense	(9,405)	(1,263)	(3,002)
Gain on Disposition of Fixed Assets	-	48	-
Other Income	9	632	34
Total Non-Operating Expense	<u>(3,681)</u>	<u>(289)</u>	<u>(2,618)</u>
Income (Loss) Before Contributions and Operating Transfers	<u>(23,431)</u>	<u>2,744</u>	<u>(6,137)</u>
Capital Grants and Contributions	-	-	32,142
Transfers:			
Transfers In	15,160	-	5,119
Transfers Out	<u>(5,119)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>(13,390)</u>	<u>2,744</u>	<u>31,124</u>
Net Assets - October 1, as restated	168,682	13,932	22,909
Residual Equity Transfers, Net	<u>3,784</u>	<u>(3,784)</u>	<u>-</u>
Net Assets - September 30	<u><u>\$ 159,076</u></u>	<u><u>\$ 12,892</u></u>	<u><u>\$ 54,033</u></u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

City of Long Beach
Business-Type Activities
Tidelands Major Segments
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2002
(In Thousands)

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 6,079	\$ 15,616	\$ 2,369
Receipts from Other Governments	21,381	-	-
Payments for Employee Salaries	(6,839)	(6,527)	(915)
Payments for Goods and Services	(11,516)	(3,742)	(3,010)
Payments to Other Entities	(19,225)	-	-
Other Income	9	21	34
Net Cash Provided by (Used for) Operating Activities	<u>(10,111)</u>	<u>5,368</u>	<u>(1,522)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers In	15,297	-	5,119
Transfers Out	<u>(5,119)</u>	<u>-</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	<u>10,178</u>	<u>-</u>	<u>5,119</u>
Cash Flows from Capital and Related Financing Activities:			
Receipt of Capital Grants	-	153	-
Proceeds from the Sale of Capital Assets	-	48	-
Receipts of Contributed Capital	-	-	32,142
Principal Received on Capital Leases	240	-	-
Payments for Capital Acquisitions	(2,090)	(1,359)	(129)
Payments of Principal on Bonds Payable	-	(2,379)	-
Payments of Principal on Other Long- Term Obligations	(2,011)	(460)	(297)
Payments of Interest	<u>(8,479)</u>	<u>(1,096)</u>	<u>(2,805)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(12,340)</u>	<u>(5,093)</u>	<u>28,911</u>
Cash Flows from Investing Activities:			
Receipts of Interest	<u>5,715</u>	<u>294</u>	<u>349</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,558)	569	32,857
Cash and Cash Equivalents - October 1	<u>31,123</u>	<u>6,754</u>	<u>7,549</u>
Cash and Cash Equivalents - September 30	<u>\$ 24,565</u>	<u>\$ 7,323</u>	<u>\$ 40,406</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2002
(In Thousands)
(Continued)

<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
Operating Income (Loss)	<u>\$ (19,750)</u>	<u>\$ 3,033</u>	<u>\$ (3,519)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Depreciation and Amortization Expense	9,910	1,719	2,206
Other Income	9	21	34
(Increase) Decrease in Accounts Receivable, Net	500	2	(117)
Increase in Amounts Due from Other Governments	(685)	-	-
Increase in Accounts Payable	5	559	355
Increase (Decrease) in Accrued Wages Payable	39	(11)	15
Decrease in Amounts Due to Other Funds	-	(5)	(496)
Increase (Decrease) in Deferred Revenues	(42)	50	-
Decrease in Collections Held in Trust	<u>(97)</u>	<u>-</u>	<u>-</u>
Total Adjustments	<u>9,639</u>	<u>2,335</u>	<u>1,997</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (10,111)</u></u>	<u><u>\$ 5,368</u></u>	<u><u>\$ (1,522)</u></u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

The City also conducts Business-type services that provide gas/gas transmission, water, airport, refuse collection, sewer and towing services. Segment information for the Business-type activities funds at September 30, 2002, and for the fiscal year then ended, are as follows (in thousands):

Business-Type Activities Major Activities	Gas	Water	Solid Waste Management	Tidelands	Tideland Oil Revenue	Harbor	Total Major Funds
Operating Revenues	\$ 62,301	\$ 58,969	\$ 67,931	\$ 46,185	\$ 44,375	\$ 223,999	\$ 503,760
Depreciation Expense	3,185	7,748	4,919	14,095	-	53,027	82,974
Operating Income (Loss)	7,827	2,897	4,571	(20,144)	23,335	130,887	149,373
Non-Operating Income (Expense)	515	(664)	(533)	(6,588)	(15,365)	(31,634)	(54,269)
Transfers Net	(7,851)	-	-	-	(3,493)	(8,677)	(20,021)
Change in Net Assets	491	3,319	4,038	20,114	4,477	90,576	123,015
Current Capital Contributions (net)	-	(16)	-	32,142	-	-	32,126
Capital Assets:							
Additions	(4,690)	(14,429)	252	(4,210)	-	(263,405)	(286,482)
Deletions, At Historical Cost	(366)	(619)	-	48	-	(10,426)	(11,363)
Net Working Capital	16,282	4,831	57,650	15,004	70,987	215,755	380,509
Total Assets	87,863	230,869	151,425	458,176	291,150	2,937,634	4,157,117
Bonds and Other Long-Term Liabilities Payable from							
Operating Revenues	15,267	44,930	139,579	220,391	269,051	1,415,210	2,104,428
Total Net Assets	\$ 72,596	\$ 185,939	\$ 11,846	\$ 237,785	\$ 22,099	\$ 1,522,424	\$ 2,052,689

Included in non-operating income for the Solid Waste Management Enterprise Fund are operating grants totaling \$1,173,000 received for the recycling program during fiscal year September 30, 2002.

Business-Type Activities Minor Activities	Sewer	Airport	Towing	Subsidence	Total Nonmajor Activities	Total Business-Type Activities
Operating Revenues	\$ 8,050	\$ 13,357	\$ 5,448	\$ -	\$ 26,855	\$ 530,615
Depreciation Expense	1,171	1,996	15	-	3,182	86,156
Operating Income (Loss)	513	(3,364)	(326)	-	(3,177)	146,196
Non-Operating Income (Expense)	312	824	63	3,187	4,386	(49,883)
Transfers Net	-	-	-	-	-	(20,021)
Change in Net Assets	1,008	740	(263)	3,187	4,672	127,687
Current Capital Contributions (net)	13	2,979	-	-	2,992	35,118
Capital Assets:						
Additions	(5,915)	(5,886)	-	-	(11,801)	(298,283)
Deletions, At Historical Cost	(30)	-	-	-	(30)	(11,393)
Net Working Capital	8,742	(1,508)	1,106	-	8,340	388,849
Total Assets	46,831	42,945	1,392	145,025	236,193	4,393,310
Bonds and Other Long-Term Liabilities Payable from						
Operating Revenues	1,241	19,030	93	2,272	22,636	2,127,064
Total Net Assets	\$ 45,590	\$ 23,915	\$ 1,299	\$ 142,753	\$ 213,557	\$ 2,266,246
Total Business Activities Net Assets						\$ 2,266,246
Internal Service Funds Consolidation						(4,658)
Net Assets of Business-Type Activities						\$ 2,261,588

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

NOTE 18 – SOUTHEAST RESOURCE RECOVERY FACILITY

The Southeast Resource Recovery Facility (SERRF) Authority was formed as a joint powers authority between the City and Los Angeles County Sanitation District No. 2 in December, 1984. Subsequent to SERRF's formation, lease revenue bonds were issued to construct a waste-to-energy facility, and contracts for the design, construction and demonstration of a plant were executed and completed. Subsequent complex contractor litigation ensued and was settled in 1994.

A final settlement to the contractor litigation provided that the City would receive \$6 million in cash and approximately \$10 million over a 20 year period in monthly installments which began in 1999. Additionally, a \$6 million payment from the present operator for future improvements has been accounted for as contributed capital. The long-term portion of future payments receivable from the former contractor of approximately \$10 million, has been accounted for as a receivable and deferred revenue. The long-term receivable at September 30, 2002 is \$7,641,000 with the current portion recognized as revenue during the fiscal year aggregating \$501,000.

In October 1995 the lease was revised since the SERRF Authority refunded the 1985, 1985-1 and 1986 bond issues with the SERRF 1995 Revenue Bond issue. The lease payment is equal to debt service payments with a maximum annual payment of \$25,000,000.

NOTE 19 – OIL ABANDONMENT LIABILITY

As mentioned in Note 1, the City is required to administer certain tideland properties in trust for the State of California. Significant enterprise operations are conducted in this Tidelands Trust area of the City. Revenues received from the City's tidelands area Business-type operations are restricted by state law to tidelands-related purposes. The trust agreement provides for the establishment of separate operating funds to account for the various activities conducted in the City's tidelands areas, as described on the following pages.

Tideland Oil Revenues

The City, acting as trustee for the State of California, utilizes contractors to oversee oil production on the tideland portion of the Wilmington Oil Field. Oil revenues (net of administrative and operating expenses, a \$1,000,000 fixed annual retention by the City, and the City's participation in the Optimized Waterflood Program Agreement as authorized by Chapter 941 of the State of California special legislative session of 1991) are remitted to the State of California. Funds retained by the City are restricted by law for tidelands-related purposes. Eligible purposes include expenses of the City's marinas, beaches, waterways, and its convention center.

The City also withholds an amount equivalent to the State's estimated share in the costs of future abandonment and site clearance of the oil properties. This estimate is based on the number and life of productive wells, general changes in the life of the oil field, and changes in oil prices. Amounts withheld are maintained in a separate interest bearing

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

account within the Tideland Oil Revenue Fund and are only expended for the specific purpose of oil field abandonment when ongoing operations are unable to fund such expenses. For fiscal year 2002, the cost of future abandonment or unfunded liability was calculated at \$1.585 per barrel of oil produced. This brought the total amount withheld for future abandonment to \$59,000,000 as of September 30, 2002. The remaining unfunded abandonment liability is estimated at \$241,300,000.

The City's proprietary ownership interests in the Wilmington Oil Field bear a proportionate share of oil field abandonment costs. Such share is presently estimated at \$4,100,000 of which \$1,916,800 has been funded as of September 30, 2002 in the Upland Oil Properties Special Revenue Fund.

Subsidence

In accordance with State legislation, the City established a Reserve for Subsidence Contingencies to indemnify the City, State and Contractors for claims or costs arising from subsidence alleged to have resulted from oil operations. A maximum of \$40,000,000, plus accrued interest, was originally set-aside for this purpose. Under provisions of state law that allowed the State's contractors to substantially increase oil production, and for a period of eight years that ended December 31, 1999, the City's Tidelands Fund received 50% of the interest earnings on the Reserve for Subsidence Contingences while the other 50% accrued to the Subsidence Fund. After the expiration of the said provisions, and for a period of four years beginning January 1, 2000, 50% of the interest earnings will be paid to the State of California and while the other 50% accrues to the Subsidence Fund. As of September 30, 2002, the reserve balance within the Subsidence Fund was \$142,753,000.

Harbor Operations

The City operates the Port of Long Beach. Leasing activities comprise a large portion of the Port's revenues. A provision for costs related to the abandonment and site clearance of oil properties purchased in March 1994 approximates \$26,313,000. A provision for the long-term abandonment costs in the amount of \$26,313,000 and \$26,400,000 has been recorded at September 30, 2002 and 2001, respectively, as a long-term obligation. Estimates of abandonment costs are reviewed annually, and adjusted to reflect modifications in abandonment practices, number and life of productive wells, varying abandonment expenses, general changes in the life of the oil field and changes in oil price levels.

NOTE 20 – INVESTMENT IN JOINT VENTURES

The City and its component financial reporting units are involved in several joint ventures with other governmental agencies. Most notably, these joint ventures involve the City's Harbor Department operating in conjunction with the Port of Los Angeles to maintain an intermodal transfer facility and to establish a comprehensive transportation corridor. Such joint ventures are generally established to facilitate development of facilities or projects for a common good. Financial interests in these joint ventures have been included in the accompanying basic financial statements as a business-type activity and use the equity method of accounting. Individually, and in the aggregate, the results of financial

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

operations and investment in the aforementioned joint ventures are not material to the City and its affected component financial reporting units. Separate financial statements for these joint ventures are available from the Finance Director of the Port of Long Beach.

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The City's Harbor Department and the Port of Los Angeles (Venturers) have entered into a joint venture agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) to finance and construct a facility to transfer cargo containers between trucks and railroad cars. The facility is leased to Southern Pacific Transportation Company, now merged with Union Pacific Railroad (tenant). The facility has been fully developed by the tenant who has assumed operational responsibility for the facility. The Venturers share net income and equity distributions from ICTF equally. A condensed, audited balance sheet as of June 30, 2002, and statement of income and venturer's equity for the year then ended are as follows:

ICTF
Condensed Balance Sheet
June 30, 2002
(In Thousands)

	<u>2002</u>
Current Assets	\$ 8,502
Property and Equipment	3,707
Total Assets	<u>\$ 12,209</u>
Current Liabilities	<u>\$ 2</u>
Venturer's Equity:	
Port of Long Beach Harbor Department	5,931
Port of Los Angeles	6,276
Total Venturer's Equity	<u>12,207</u>
Total Liabilities and Venturers' Equity	<u>\$ 12,209</u>

Condensed Statement of Income and Venturer's Equity
for the Year Ended June 30, 2002
(In Thousands)

	<u>2002</u>
Operating Revenues	\$ 8,673
Operating Expenses	<u>(108)</u>
Operating Income	8,565
Interest Income	181
Net Income	<u>8,746</u>
Venturers' equity, July 1	10,961
Cash Disbursement to Venturers	<u>(7,500)</u>
Venturers' Equity, June 30	<u>\$ 12,207</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Pursuant to an Indenture of Trust dated November 1, 1984, ICTF issued \$53,900,000 of 1984 Series A bonds on behalf of the tenant to construct the facility. On May 1, 1989, ICTF issued \$52,300,000 of 1989 Series A Refunding Revenue Bonds on behalf of the tenant to advance refund the 1984 Series A bonds. The bonds are payable solely from payments by the tenant under a long-term lease agreement for use of the facility. The nature of the bonds is such that the long-term indebtedness is that of the tenant and not of ICTF, the City's Harbor Department or the Port of Los Angeles.

Pursuant to an Indenture of Trust, dated as of October 1, 1999, ICTF issued its Intermodal Container Transfer Refunding Revenue Bonds, 1999 Series A (the 1999 Bonds). In connection with the issuance of the 1999 Bonds, Union Pacific Railroad Company and ICTF entered into a Second Amended and Restated Installment Sale and Security Agreement, dated as of October 1, 1999. The proceeds of the 1999 Bonds, together with certain other funds, were used by ICTF to redeem all of the Intermodal Container Transfer Facility Refunding Revenue Bonds, 1989 Series A currently outstanding.

NOTE 21 – DEFERRED COMPENSATION

The City offers all of its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code, Section 457. The Plan permits employees to defer a portion of their salary until future years. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such trust accounts for the exclusive benefit of the City employee participants and their beneficiaries.

While the City has full power and authority to administer and to adopt rules and regulations for the Plan, all investment decisions under the Plan are the responsibility of the Plan participants. The City has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. The accumulated assets of the Plan are not required to be reported in the accompanying basic financial statements.

If Plan participants retire or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Commitments

At September 30, 2002, business type fund commitments for construction projects and for purchases of goods and services are as follows (in thousands):

Gas	\$ 185
Water	4,645
Sewer	5,275
Airport	51
Solid Waste Management	9
Tidelands	2,720
Harbor	114,714
Total	<u>\$127,599</u>

At September 30, 2002 the City's commitments for governmental activity construction projects and for purchase of goods and services aggregated \$9,789,000.

The Component Unit, Long Beach Transportation Company has \$21,706,000 in purchase commitments at June 30, 2002, mainly for the purchase of new buses and an advanced communication system.

Health Insurance

The City contracts with an insurance company to provide group health insurance to City employees. In an effort to maintain rates at acceptable levels, the City deposited with the insurance company certain securities valued at approximately \$5,000,000 to cover terminal liability claims. The securities are included in the City's pooled cash and investments and all interest earned on the securities accrues to the City. In the event of the City terminating its contract with the insurance company, the securities will be returned to the City.

Self Insurance

The City is the subject of numerous claims seeking recovery of monetary amounts. Such claims generally occur in the normal course of business and arise from several causes of action including general liability, employment related matters, alleged violations of civil rights, recovery of questioned grant costs and other incidental issues.

As stated in Note 14, the City is self-insured for its workers' compensation and liability claims. As claims are made against the City, they are routinely evaluated and appropriate accrued liabilities are recorded. Certain of these claims may ultimately reach the trial level and could result in judgments against the City. While the ultimate adverse effect, if any, of claims and judgments against the City cannot be estimated with certainty, it is the opinion of management, based upon consultation with the City Attorney and outside legal counsel as applicable, that such judgments against the City will not have a material adverse effect on the City's financial position beyond that already accrued for in the basic financial statements.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Environmental Remediation

In March 1994 the City's Harbor Department purchased 725 acres of property within the Harbor District. The property contains soil which will require remediation of environmentally hazardous materials for the portion of the property that the Harbor Department chooses to develop. Should such remediation be deemed necessary, the Harbor Department's liability is mitigated by provisions of the purchase agreement that call for a portion of the fiscal responsibility for remediation costs to be placed on Union Pacific Resources Company (UPRC), the seller, for a period not to exceed fifteen years and amounts not to exceed \$112,500,000 according to the following table:

Allocation:

Site Remediation Costs	UPRC	Harbor Department
First \$50,000,000	\$ 50,000,000	\$ ---
Second \$50,000,000	25,000,000	25,000,000
Third \$50,000,000	12,500,000	37,500,000
Fourth \$50,000,000	25,000,000	25,000,000
All Additional Costs	---	100%
Maximum UPRC Liability	<u>\$ 112,500,000</u>	

Currently, the Harbor Department has developed 131 acres and has plans to develop an additional 160 acres. Clean-up costs for both of these areas are not anticipated to exceed the first \$50,000,000 tier above.

In December 1994, the Harbor Department purchased the right-of-way over property from Southern Pacific Railroad Company (SPRC). The Harbor Department intends to develop this property as part of the Alameda Corridor Project. Based on preliminary assessments, the property may contain hazardous substances requiring remediation or abatement due to pre-existing environmental conditions. The Harbor Department's liability is mitigated by a reimbursement from SPRC in the amount of \$7,500,000. The Long Beach Harbor Department's liability is also mitigated by provisions of the purchase agreement which state that a portion of the fiscal responsibility for remediation costs should be absorbed by SPRC (i.e., fifty-percent of environmental losses in excess of \$25,000,000, on a cumulative basis for all pre-existing environmental conditions).

In September 1995, the City assumed responsibility for approximately 100 acres of land from the City's Water Department which includes potential future costs related to remediation of hazardous materials on the properties. No estimated amount is available since the project designated for this land has not been completed.

Alameda Corridor Development Project

In December 1994, the City's Harbor Department and the Port of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Corridor), which will be a comprehensive

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost equally with the railroad companies serving the Ports. With the development of the Corridor, the Ports will consolidate the rail services of these railroad companies onto a single set of rail lines, thus improving rail transportation conditions, securing efficient and competitive service to and from the Ports, and providing for public safety and convenience along the route on which Ports related traffic occurs.

As of September 30, 2002, the total cost to the City's Harbor Department related to the rights-of-way purchase amount to \$207,500,000.

Construction of the Corridor began in 1997 and was completed in April 2002. Construction funds were provided from federal, state, and local sources, and from issuance of debt. Repayment to the City's Harbor Department for monies advanced and its initial investment in the corridor right-of-way acquired will occur once the Alameda Corridor Transportation Authority (ACTA) has generated sufficient revenues to retire all debt and provide for a maintenance reserve. The Harbor Departments management estimates that as much as \$463 million could be returned to the Port of Long Beach Harbor Department through the year 2037.

The Alameda Corridor Use and Operating Agreement executed between the Harbor Department, the Port of Los Angeles, ACTA, and the participating railroads, provides for a payment of funds to be made to ACTA by the Harbor Department and the Port of Los Angeles under certain circumstances. Revenues generated by Use Fees and Container Charges, paid by the railroads, will be used to pay debt service on the corridor financing, to establish and maintain a reserve account, and to pay ACTA's reasonable administration expenses.

To the extent that such fees and charges are not sufficient to meet ACTA's obligations, the Harbor Department and the Port of Los Angeles are required to advance the funds necessary to make up the difference. This obligation begins after substantial completion of the Corridor project and is limited to a total of 40% of the total annual required amount, with the Harbor Department and the Port of Los Angeles sharing the costs equally. Any advances made by the Harbor Department and the Port of Los Angeles are reimbursable with interest after maturity of the debt. The maximum amount that the Harbor Department could be obligated for is \$88.1 million, payable from the year 2004 to 2019, in annual amounts ranging from \$692,000 to \$10.6 million. Repayment with interest of this amount to the Harbor Department may begin in 2018.

Environmental Mitigation Costs

In 1997, the Long Beach Harbor Department disbursed approximately \$39.4 million to secure environmental mitigation credits. An agreement between the Port and the Harbor Department of the City of Los Angeles, and several federal and state regulatory agencies provided for the Harbor Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. Such land was transferred to the State in return for environmental mitigation credits to allow for the construction of up to 267 acres of landfill in the City's outer Harbor Area. Costs incurred in the acquisition of the land were classified as non-current assets. During the year ended September 30, 2002, the Harbor Department completed landfills that required the utilization

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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of \$5.1 million of the available credits. The balance of environmental mitigation costs will be adjusted as landfill credits are used for port development.

Pike Public Improvements

During the year, the City issued special assessment debt under the authority of the Mello-Roos Community Facilities Act for public improvements, mainly a parking facility, in the Pike Development Project area (Note 9). Although the debt does not constitute an indebtedness of the City, in order to facilitate such financing, the parking facility will be sublet to the City for the purposes of issuance of the Mello-Roos Bonds pursuant to a City sublease. According to the sublease, the City may be subject to an annual calculated lease payment up to \$1,169,000.

Redevelopment Agency Bond Issue

The City's Redevelopment Agency issued \$47,780,000 in Tax Allocation Bonds in November, 2002 for the Downtown and West Long Beach Industrial Projects. The Agency will refund and defease an aggregate principal amount of \$25,670,000 of the Series 1992 A Downtown Bonds, to reduce the interest cost on the bonds, based on the current market conditions, fund certain redevelopment projects and pay the cost of issuance.

The Redevelopment Agency intends to refund a portion of the West Long Beach Industrial Project Tax Allocation Bonds Series 1992, repay certain advances from the Harbor Fund, fund the reserve account and pay cost of issuance.

Component Unit – Long Beach Transportation Company (LBT)

In June 2000, the South Coast Air Quality Management District (SCAQMD) adopted a new ruling requiring transit operators to purchase only alternative fuel vehicles that meet certain air emissions standards. Diesel engines, which the LBT currently operates, are specifically excluded. Neither does the ruling affect the coaches that LBT currently has on order and included in the purchase commitment amount.

After extensive review, the LBT's Board of Directors adopted an alternative fuel program using Liquefied Natural Gas (LNG). The first 20 alternative fueled coaches are estimated to arrive in fiscal year 2004. The LBT has obtained \$3 million in Federal funding to begin modification of its maintenance facilities.

City of Long Beach
Required Supplementary Information
CalPERS Analysis of Funding Progress
(Unaudited)
(In thousands)

<u>June 30</u> <u>Actuarial</u> <u>Valuation Date</u>	<u>Entry Age</u> <u>Normal</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Excess</u> <u>Assets</u>	<u>Funded</u> <u>Status</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>Excess Assets</u> <u>as a % of</u> <u>Covered</u> <u>Payroll</u>
<u>Miscellaneous Employees</u>						
1999	\$ 855,621	\$1,188,077	\$332,456	138.9%	\$141,375	235.2%
2000	925,227	1,290,468	365,241	139.5%	157,533	231.9%
2001	<u>1,073,565</u>	<u>1,371,081</u>	<u>297,516</u>	<u>127.7%</u>	<u>167,711</u>	<u>177.4%</u>
<u>Safety Employees</u>						
1999	\$ 899,798	\$1,213,370	\$313,572	134.8%	\$ 88,950	325.5%
2000	1,055,321	1,362,312	306,991	129.1%	94,103	326.2%
2001	<u>1,113,321</u>	<u>1,379,808</u>	<u>266,487</u>	<u>123.9%</u>	<u>100,629</u>	<u>264.8%</u>
<u>Safety Employees – 1959 Survivor Program</u>						
1999	\$ 134	\$ 3,117	\$ 2,983	2,328.6%	\$ 88,950	3.4%
2000	-	3,524	3,524	N/A	94,103	3.7%
2001	<u>165</u>	<u>3,838</u>	<u>3,673</u>	<u>2,325.2%</u>	<u>100,629</u>	<u>3.7%</u>

City of Long Beach
Required Supplementary Information

Public Agency Retirement System
Analysis of Funding Progress
(Unaudited)

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liabilities</u>	(Funded) Unfunded Liability (excess <u>assets</u>)	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	Rate of (Funded) Unfunded Liability to Annual <u>Covered Payroll</u>
Special Status Contractors						
1995	\$ 41,928	\$ 31,277	\$ (10,651)	134%	\$2,306,831 *	(0.5) %
1996	160,293	119,717	(40,576)	134	6,467,452	(0.6)
1997	307,157	213,710	(93,447)	144	7,705,838	(1.2)
1998	486,521	355,293	(131,228)	137	8,466,050	(1.6)
1999	644,850	420,281	(224,569)	153	9,555,890	(2.4)
2000	801,334	296,301	(505,033)	270	8,140,210	(6.2)
2001	920,527	106,186	(814,341)	867	3,413,000	(23.9)
2002	<u>1,004,167</u>	<u>89,125</u>	<u>(915,042)</u>	<u>1,127</u>	<u>1,000,124</u>	<u>(91.5)</u>
Seasonal and Temporary						
1996	\$ 24,773	\$ 17,879	\$ (6,894)	139%	\$2,682,200 **	(0.3) %
1997	78,836	33,228	(45,608)	237	6,279,392	(0.7)
1998	141,516	137,885	(3,631)	103	6,170,163	(0.1)
1999	199,499	224,641	25,142	89	6,683,590	0.4
2000	269,907	279,145	9,238	97	6,984,372	0.1
2001	396,528	304,423	(92,105)	130	7,284,767	(1.3)
2002	<u>522,419</u>	<u>385,904</u>	<u>(136,515)</u>	<u>135</u>	<u>7,472,821</u>	<u>(1.8)</u>

* The annual covered payroll is actual plan compensation paid to all actives from January 1, 1995 through June 30, 1995.

** The annual covered payroll is actual plan compensation paid to all actives from November 11, 1995 through June 30, 1996.